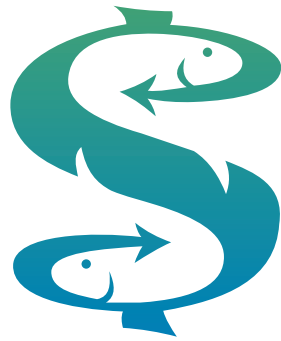


---

U.S. Environmental Protection Agency, Region 10

---



# Clean Water

## State Revolving Fund

Washington Program Evaluation Report

State Fiscal Year 2014

August 2015





UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
REGION 10  
1200 Sixth Avenue, Suite 900  
Seattle, WA 98101-3140

OFFICE OF  
WATER AND WATERSHEDS

AUG 14 2015

Mrs. Heather Bartlett, Program Manager  
Water Quality Program  
Washington Department of Ecology  
P.O. Box 47600  
Olympia, Washington 98504-7600

Dear Ms. Bartlett:

Enclosed is the U.S. Environmental Protection Agency (EPA) Program Evaluation Report for the Washington Water Pollution Control Revolving Fund (Revolving Fund) for State Fiscal Year 2014. Our review found that the Washington Department of Ecology (Ecology) continues to run an excellent program.

Significant highlights include acceleration of water quality project funding through the use of advanced cash flow modeling and impressive green project funding, especially the \$9.8 million for water reclamation components at the Chambers Creek project. In addition, Ecology did an exceptional job throughout the entire two year process in working with the State Legislature to explain EPA's CWSRF fee policy, what the administrative charge could and could not be used for, and working with EPA to ensure that the rule language and accounting structure Ecology established all fit within the allowable parameters of EPA's fee policy.

The onsite discussions and project file reviews indicate that the Revolving Fund is in compliance with the programmatic and technical aspects of the program evaluated this year, including green project reserve, additional subsidy in the form of principal forgiveness, and environmental review. Our financial analysis found that Ecology meets the financial requirements of the program, including timely and expeditious use of funds, binding commitments, and proper cash draw transactions. We discovered three improper payments that have since been resolved. Our detailed review yielded no required or recommended actions, now two years in a row. This is a rare result and demonstrates the high quality of the program.

We greatly appreciate the cooperation of Jeff Nejedly and his CWSRF team, the regional staff, and the Fiscal Office, all of whom share in implementing this program. The combined experience and knowledge contribute to making Ecology's Revolving Fund a strong, well-run program.

If you have any questions, please call me at (206) 553-1855 or have your staff contact David Carcia at (206) 553-0890 or [carcia.david@epa.gov](mailto:carcia.david@epa.gov).

Sincerely,



Daniel D. Opalski  
Director  
Office of Water and Watersheds

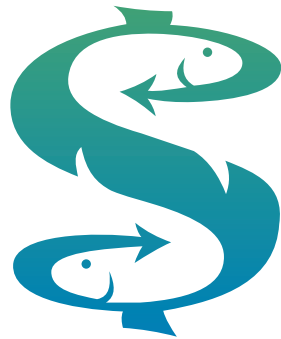
Enclosure

cc: Mr. Jeff Nejedly, Ecology  
Ms. Lisa Darnell, Ecology

---

U.S. Environmental Protection Agency, Region 10

---



# Clean Water

## State Revolving Fund

Washington Program Evaluation Report

State Fiscal Year 2014

August 2015



## TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
PROGRAMMATIC HIGHLIGHTS.....	1
FINANCIAL HIGHLIGHTS .....	1
<b>INTRODUCTION .....</b>	<b>2</b>
<b>STATE PROGRAM OVERVIEW .....</b>	<b>3</b>
<b>UPDATE ON SFY 2013 ANNUAL REVIEW .....</b>	<b>5</b>
<b>PROGRAM REVIEW .....</b>	<b>5</b>
FFY 2013 APPROPRIATION REQUIREMENTS .....	5
<i>Additional Subsidization</i> .....	5
<i>Green Project Reserve</i> .....	6
<b>PROJECT REVIEW .....</b>	<b>7</b>
PIERCE COUNTY CHAMBERS CREEK PROJECT (LOANS #L1400020) .....	7
<i>Project description and Status</i> .....	7
<i>Environmental Benefits and Green Project Reserve</i> .....	8
CITY OF GRANGER (LOAN# L1300029) .....	8
<i>Project description and Status</i> .....	8
<i>Environmental Benefits</i> .....	8
ENVIRONMENTAL REVIEW .....	8
<b>FINANCIAL REVIEW .....</b>	<b>9</b>
AUDITS .....	9
<i>Independent Financial Audit</i> .....	9
<i>Single Audit Act</i> .....	10
FEE INCOME .....	11
CASH DRAW TRANSACTION TESTING .....	12
<i>Improper Payments</i> .....	14
FINANCIAL INDICATORS .....	16
<b>CONCLUSION .....</b>	<b>18</b>
<b>APPENIX A: ANNUAL &amp; FILE REVIEW CHECKLISTS .....</b>	<b>APPENDIX-A</b>
ANNUAL REVIEW CHECKLISTS	
<i>Programmatic Checklist</i> .....	A-3
<i>Financial Checklist</i> .....	A-12
<i>Sustainability Checklist</i> .....	A-28
FILE REVIEW CHECKLISTS	
<i>File Review Checklist #1: Pierce County Chambers Creek Project (Loans #L1400020)</i> .....	A-30
<i>File Review Checklist #2: City of Granger (Loan# L1300029)</i> .....	A-38





---

## EXECUTIVE SUMMARY

---

This report presents the Environmental Protection Agency's (EPA) State Fiscal Year (SFY) 2014 evaluation of Washington's Clean Water State Revolving Fund (CWSRF or the Fund) administered by the Washington State Department of Ecology (Ecology). It includes an introduction, which includes our review methodology and information sources, a State program overview, project file review summaries, and programmatic and financial highlights. This Program Evaluation Report (PER) has no required or recommended actions for Ecology.

### PROGRAMMATIC HIGHLIGHTS

During SFY 2014, Ecology signed \$142 million into assistance agreements including, \$11.9 million of Green Project Reserve (GPR) eligible project costs, over five times the minimum GPR requirement of \$2.3 million, and provided \$1.1 million in principal forgiveness, which is between the minimum required and maximum allowed. By the end of Washington's 2014 fiscal year, the program had cumulatively funded approximately \$1.40 billion out of \$1.41 billion available, for a fund utilization rate of 99%.

EPA found Washington's program in compliance with all requirements, with one minor exception, lack of public notice of Ecology's concurrence with Granger's environmental review. Since this was corrected before the issuance of this PER, no further action is required.

The following two project files were reviewed:

- Pierce County-Chambers Creek Regional WWTF, and
- City of Granger-Wastewater System Improvement Project

Pierce County received a \$60 million loan, including \$9.8 million for GPR water efficiency components. The City of Granger received \$1,983,122. Combined, these projects provided improved water quality benefits to 265,693 residents.

### FINANCIAL HIGHLIGHTS

The Washington CWSRF program has performed well according to financial indicators established for the program nationally. Washington's percentage of executed loans to funds available is 99%. This shows that Ecology is effectively committing funds faster than the national average of 93% for states with direct loan programs. This performance indicator is important because it documents Washington's effectiveness at

quickly obligating the funds it receives into new projects. The dramatic increase in pace over last year also shows Ecology's effectiveness in accelerating the pace of the program through its advanced cash flow modeling plan.

Cash draw transaction testing was conducted on eight Federal cash draws taken from EPA grants CS 530001-11 and CS 530001-12 ranging from \$10,499 to \$2,950,921. All but two of the costs appeared eligible for CWSRF funding and only three improper payments totaling \$253,813.23 were found. EPA found consistent state match reimbursements to the CWSRF at the proper Federal/State rates of 83.33% and 16.67% for both grants.

All funds were disbursed from federal CWSRF capitalization grants within three years of award. The speed with which Ecology has disbursed federal funds has continued to improve each year, nearly reaching the goal of having all federal funds disbursed in less than two years of award. EPA appreciates Ecology's partnership in preventing large unliquidated obligations from becoming an issue.

---

## INTRODUCTION

---

The SFY 2014 PER was guided by EPA's "Annual Review Guidance of State Revolving Fund Programs", provided by the EPA Office of Water, November 1, 2013. EPA relied upon information from the following sources:

- 2008 Operating Agreement between the EPA and Ecology governing the administration of Washington's CWSRF;
- Grant agreements associated with each of the open EPA capitalization grants to Ecology;
- Washington's CWSRF SFY 2014 Intended Use Plan (IUP);
- The SFY 2014 Annual Report submitted by Ecology;
- The independent financial audit for SFY2013 issued in June 2014;
- Two project file reviews conducted between April 15 and May 14, 2015
  - Pierce County-Chambers Creek Regional WWTF, Loan #1400020, managed by Ecology's Southwestern Regional Office
  - City of Granger-Wastewater System Improvement, Loan # L1300029, managed by the Central Regional Office.
- Records of financial transactions maintained by EPA and Ecology;
- The National Information Management System database updated by Ecology for annual CWSRF financial data;

- The Clean Water Benefits Reporting database updated by Ecology for project and loan specific data; and
- The SFY 2013 Program Evaluation Report (PER).

EPA's financial analyst visited Ecology's office in April 2015 to gather invoices and other financial documentation for cash draw transaction testing, which was conducted offsite at EPA's Region 10 office in Seattle. EPA's project officer conducted some of the file reviews in advance at EPA's office with follow up items reviewed onsite. Some project files were provided electronically while others were reviewed during the onsite visit in Lacey, WA. EPA's on-site review and discussions were conducted in Lacey, Washington from May 12 – 14, 2015.

This PER provides an update of action items identified in the SFY 2013 PER, selected program items including annual appropriation requirements, the two projects reviewed, the financial and audit review, cash draw and disbursement transaction testing, and national financial indicators. Additional review information is available in the attached [Annual Review](#) and [Project File Review](#) checklists. All issues discovered during the review have been addressed. There are no outstanding required or recommended actions.

---

## STATE PROGRAM OVERVIEW

---

The Financial Management Section in Ecology's Water Quality Program manages Washington's CWSRF (Fund) and has operated it as a direct loan program since receiving its first capitalization grant from EPA in September 1989. Through the end of SFY 2014, Ecology has received a total of \$653 million in EPA capitalization grants<sup>1</sup>, including an additional just over \$68.2 million of American Recovery and Reinvestment Act (ARRA) funds<sup>2</sup>. These grants were matched by the State with approximately \$109 million in capital contributions<sup>3</sup>. The Fund receives its match from biennium appropriations from the Washington State Legislature.

Total funds available to the program through the end of SFY 2014, including investment earnings, principal and interest repayments, was approximately \$1.41 billion<sup>4</sup>.

Ecology's sources and uses of annual funding are documented in the Intended Use Plan (IUP), which includes a ranked project priority list. Once a project in the IUP meets

---

<sup>1</sup> National Information Management System (NIMS) line 71

<sup>2</sup> NIMS lines 55a

<sup>3</sup> NIMS line 77

<sup>4</sup> NIMS line 283

all SRF prerequisites, it is can be funded. Lower ranked projects can be funded ahead of higher ranked projects that are not ready to proceed.

Ecology offers assistance to projects eligible under Sections 212, 319, and 320 of the Clean Water Act (CWA). Through SFY 2014, Ecology has cumulatively funded \$87 million of Section 319 Nonpoint Source assistance<sup>5</sup>. The Water Quality Program uses an integrated solicitation process, unique to Washington State, which allows project sponsors to submit a single application to apply for assistance from the Revolving Fund, State Centennial Program, and the State's CWA Section 319 Grant Program. The system also is flexible enough to handle any additional sources of funding that may become available, such state Legislature stormwater grants.

During SFY 2014, Ecology signed twenty-seven new assistance agreements and no increases to existing loans, for a total of \$141 million.<sup>6</sup>

The twenty-seven projects funded in SFY 2014 were for various water quality improvement projects such as design, planning, or construction of waste water treatment facilities, riparian restoration, and water efficiency, benefiting a combined 142 million Washington residents<sup>7</sup>. Ecology provided \$138 million<sup>8</sup> this year for projects that addressed impaired waterbodies. Ecology has identified \$11.90 million<sup>9</sup> of GPR eligible project costs in SFY 2014, surpassing the minimum requirement of \$2,321,700. In addition, Ecology provided \$1,127,903<sup>10</sup> in principal forgiveness, which is within the minimum and maximum required by this year's grant condition.

Ecology used advanced cash flow modeling projections to sign \$40 million more in loans in SFY2014 than possible without this type of accelerated funded. This technique is based on revenue projected from loans that have already gone into repayment. The ultimate long term goal is to minimize the Fund balance and be able to sign \$100 million in loans each year absent a capitalization grant award.

EPA tracks the percent of assistance provided relative to the total amount of funds available. The target is to obligate as much of the money to projects as possible. At the end of SFY 2014, approximately \$1.40 billion<sup>11</sup> was obligated out of \$1.41 billion<sup>12</sup> available, for a fund utilization rate of 99%. This is significantly better than the EPA's target of 94.5%.

Ecology assesses an annual one percent administrative charge on the remaining balance of loans that are in repayment. Washington still takes the allowable four percent

---

<sup>5</sup> NIMS lines 165

<sup>6</sup> According to the SFY 2014 Annual Report and CBR report generated 7/9/2015

<sup>7</sup> According to the SFY 2014 Annual Report and CBR report generated 7/9/2015

<sup>8</sup> According to CBR, summary report generated 7/9/2015

<sup>9</sup> According to CBR, summary report generated 7/9/2015

<sup>10</sup> According to CBR, report generated 4/2/2015

<sup>11</sup> NIMS line 137

<sup>12</sup> NIMS line 283

administrative costs set-aside, but projections indicate that the state will be able to pay all administrative costs exclusively from the new charge within a few years.

---

#### **UPDATE ON SFY 2013 ANNUAL REVIEW**

---

There were no required and recommended actions in the SFY 2013 PER.

---

#### **PROGRAM REVIEW**

---

This section documents EPA's review of Washington's implementation of the CWSRF statutory and regulatory requirements. Throughout the course of the year, EPA coordinates with Ecology in reviewing IUPs, the CWSRF annual grant application, annual report, Clean Water Benefits Reporting System (CBR) data, and the Operating Agreement (as needed) as part of ongoing program oversight. Based on the reviewed materials and staff interviews, we found the program to be in compliance with all requirements, except as noted below. This section also includes information related to how Ecology is meeting the annual appropriation requirements and highlights Ecology's highly effective GPR program.

#### **FFY 2013 APPROPRIATION REQUIREMENTS**

This section documents the EPA's review of specific requirements that originate from Congressional appropriation language. Since these typically change annually, a brief description of each requirement is included below.

##### **ADDITIONAL SUBSIDIZATION**

The Additional Subsidization Requirement (ASR) for the CWSRF was included in EPA's Federal Fiscal Year (FFY) 2012 appropriation and continued for FFY 2013 through the Consolidated and Further Continuing Appropriations Act, P.L. 113-6. The requirements were passed through to Ecology in their capitalization grant. Based on the FFY 2013 grant, Ecology was required to provide additional subsidization between \$1,093,620 and \$1,640,430 in SFY 2014. In the Clean Water Benefits Reporting System (CBR), Ecology reported actual principal forgiveness of \$ 1,127,903, which is within ASR range in the FFY13 grant condition. Ecology reported providing principal forgiveness to the projects listed in Table 1 below.

**Table 1: FFY 2013 Project with Additional Subsidization as Principal Forgiveness**

<b>Agreement #</b>	<b>Recipient</b>	<b>Project Name</b>	<b>Agreement Amount</b>	<b>Principal Forgiveness</b>
L14S0026	Lacrosse, Town of	LaCrosse Wastewater Facility Improvements	\$359,500	\$86,725
L14S0010	Bellingham, City of	Squalicum Creek Water Quality & Biotic Improvements: Phase I	\$1,660,373	\$415,093

L14S0019	Kitsap County	Ridgetop Boulevard Green Street Retrofit	\$1,500,000	\$375,000
L14S0012	Carbonado, Town of	Town of Carbonado General Sewer Plan/Wastewater Facilities Plan and Environmental Report	\$100,000	\$50,000
L14S0003	Deer Park, City of	Deer Park Aerated Lagoon Screening and Aeration Project	\$639,377	\$45,425
L14S0027	Spokane Conservation District	Spokane County Septic Tank Replacement Loan Program	\$500,000	\$50,000
L14S0018	Concrete, Town of	2013 Sanitary Sewer CCTV and I&I Study	\$112,910	\$56,455
L14S0016	McCleary, City of	City of McCleary General Sewer Plan	\$65,000	\$32,500
L14S0009	Pend Oreille County	Selkirk School District Wastewater Treatment Upgrade Phase 2	\$57,110	\$16,705
			<b>Total</b>	<b>\$1,127,903</b>

The EPA capitalization grant states that priority for additional subsidies should be given to communities that could not otherwise afford such projects or that are defined by the State as disadvantaged, which applied to two projects awarded ASR. The remaining ASR was awarded in ranked order to projects that included GPR eligible components or to pre-construction activities, in accordance to Washington State rules.

The national grant conditions further recommend that these subsidies be directed toward “sustainable” projects (as defined in the grant conditions) and requires states to report on whether or not this recommendation was followed. All FY2013 principal forgiveness went to “repair and replace” projects and were reported as such in the annual report, thus meeting the grant condition.

The FFY 2013 grant required that projects receiving additional subsidy to be entered quarterly into CBR and listed in the SFY2014 Annual Report. Ecology completed timely CBR entries, including whether or not the project was affordable to the assistance recipient without subsidy. Ecology provided the required subsidy information in the SFY 2014 Annual Report.

#### GREEN PROJECT RESERVE

Green Project Reserve (GPR) requirements were authorized for the CWSRF again in EPA's FFY 2012 appropriation and continued for FFY 2013 through the Consolidated and Further Continuing Appropriations Act, P.L. 113-6. The GPR requirements were passed through to Ecology in their capitalization grant. Ecology's responsibilities under GPR are to solicit and fund GPR projects, or components of projects, for not less than 10% of the capitalization grant amount. The four categories of GPR are green

infrastructure, energy efficiency, water efficiency, and environmentally innovative projects. Ecology also must identify those projects in the IUP, state whether they are categorically green or will require a business case, review all business cases, and post them on their web site by the end of the quarter in which the assistance agreement is signed.

Ecology's Green Project Reserve target for SFY 2014 was \$2,324,676. According to the Clean Water Benefits Reporting System, Ecology funded four project that included an estimated \$11,891,700 of GPR eligible costs.

**Table 2: FFY 2013 Projects with Green Project Reserve Estimates**

Agreement #	Recipient	Project Name	GPR Description	GPR Amount <sup>13</sup>
L1400019	Kitsap County	Ridgetop Boulevard Green Street Retrofit	See Project Name	\$1,500,000 (GI)
L1400020	Pierce County	Chambers Creek Regional WWTP Expansion	Water Reclamation	\$9,800,000 (WE)
L1400026/L14S0026	LaCrosse, Town of	LaCrosse Wastewater Facility Improvements	Energy Efficiency 3.2-2	\$91,700 (EE)
L1400027/L14S00027	Spokane Conservation District	Spokane County Septic Tank Replacement Loan Program	See Project Name	\$500,000 (EI)
<b>Total</b>				<b>\$ 11,891,700</b>

EE=energy efficiency GPR, EI=environmentally innovative GPR, GI= green infrastructure GPR, WE=water efficiency GPR

The SFY2014 Annual Report included all of the required GPR information.

---

## PROJECT REVIEW

---

This section summarizes the project file reviews conducted for the SFY2014 Ecology SRF program evaluation.

### **PIERCE COUNTY CHAMBERS CREEK PROJECT (LOANS #L1400020)**

#### **PROJECT DESCRIPTION AND STATUS**

As described in CBR, Pierce County: Chambers Creek (Loans #L1400020) is a \$60 million twenty-year assistance agreement to construct major improvements to the

---

<sup>13</sup> The four GPR categories are: Energy Efficiency (EE), Water Efficiency (WE), Environmentally Innovative (EI), and Green Infrastructure (GI).

Chambers Creek Regional Wastewater Treatment Plant, including construction of new secondary clarifiers, aeration basins, and reclaimed water components.

This project began construction in 2012, is about 60% constructed, and is expected to be completed by the end of 2016.

#### ENVIRONMENTAL BENEFITS AND GREEN PROJECT RESERVE

The project will improve water quality and protection of the following designated surface water uses and outcomes: infrastructure improvement, wildlife habitat, and groundwater protection. The project will benefit 733,700 residents. The project includes an estimated \$9.8 million water reuse components that are eligible for GPR under the water efficiency category.

#### **CITY OF GRANGER (LOAN# L1300029)**

##### PROJECT DESCRIPTION AND STATUS

As described in CBR, City of Granger (Loan# L1300029) is a \$1,983,122 twenty-year assistance agreement for upgrades and expansion of an existing, publicly-owned wastewater treatment works facility, including extension of the outfall to improve effluent mixing, increased capacity (which is currently nearing 85% of the permitted threshold), and secondary treatment. The project began construction in July 2012, is about 80% constructed, and is expected to be completed by the end of 2015.

##### ENVIRONMENTAL BENEFITS

The project will improve water quality and protection of the following designated surface water uses: Salmonid migration, growth and harvesting. The project will benefit 3,285 residents.

##### ENVIRONMENTAL REVIEW

Under the Clean Water Act (CWA) and 40 C.F.R. §35.3140(a), EPA requires that all Section 212 projects undergo Environmental Review. These projects include the familiar wastewater treatment projects as well as nonpoint source pollution control and estuary projects that can also fit the definitions of “construction” and “treatment works” as defined in §212 of the CWA. After completing the environmental review of a project, an agency’s environmental determination is issued, publically noticed, and frequently the public is allowed 14 days to provide comments. The determination is only valid for five years, after which time the project is subject to a mandatory environmental reevaluation if it wants CWSRF funding. Upon completion of the reevaluation, the original environmental decision must be reaffirmed or modified. EPA recognizes that the state has a SEPA process similar to NEPA that includes an extensive public notice and comment process codified into the Washington state rules.

City of Granger (Loan # L1300029) was in compliance with SRF environmental review requirements. Pierce County: Chambers Creek (Loans #L1400020) also complied with SRF environmental review requirements, with the exception that Ecology’s



concurrence with Pierce County's determination had not been publically noticed, and has since been properly addressed. No further action required.

---

## FINANCIAL REVIEW

---

This section documents EPA's review of Washington's financial management and oversight of the CWSRF and its borrowers. Throughout the course of the year and during the onsite visit, EPA reviews State accounting records, draft and audited financial statements, NIMS, borrowers' invoices and audits (as necessary) to conduct ongoing financial oversight. This section also includes information on audits of Ecology's CWSRF program, newly established fee account, detailed results of EPA's cash draw transaction testing, and national financial indicators of the program's effectiveness.

Based on the reviewed materials and staff interviews, EPA found Washington's financial management to be in compliance with all requirements. EPA did not find any instances of negative cash draws. All funds were disbursed from federal CWSRF capitalization grants within three years of award and consistent with the required split of 83.33% Federal and 16.67% State Match reimbursements to the Fund. As discussed below, the three improper payments discovered have already been corrected.

### AUDITS

#### INDEPENDENT FINANCIAL AUDIT

The Washington State Auditor's Office (State Auditors) have been annually auditing the financial statements of the CWSRF for many years. During the spring of 2015, the State Auditors informed Ecology that due to heavy workload they were not likely to be able to complete an audit of the financial statements for SFY 2014. Ecology thus contracted with a private auditing firm, CliftonLarsonAllen (CLA), to complete the SFY 2014 Financial Statements Audit Report. By the time this PER was sent to Ecology for review and comment, CLA had not yet issued the SFY 2014 Individual Entity Audit Report of the CWSRF. Ecology requested, and EPA granted, an extension and the Audit was issued on July 29, 2015.

The State Auditor's Financial Audit Report for SFY 2013 concluded that the CWSRF's financial statements presented fairly, in all material respects, the financial position of the CWSRF and the changes in financial position and cash flow. As a result, the State Auditors issued an unmodified opinion on the CWSRF financial statements. The audit process also performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements that could affect the CWSRF financial statement amounts. As a result of these tests, one recommendation was made.

The Audit identified a significant deficiency in internal controls over financial reporting that affects Ecology's ability to produce accurate and complete financial

statements for the SRF account. A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The following deficiencies in internal controls, when taken together, represented a significant deficiency:

- The key employee responsible for compiling the financial statement left the Department. The remaining accounting staff did not have adequate technical knowledge to prepare the statement in conformity with Generally Accepted Accounting Principles (GAAP).
- The Department did not have an employee, independent of the preparation process, with the experience and technical knowledge to review the financial statements for accuracy and completeness.

The audit report stated that Ecology submitted a total of three sets of financial statements; the two initial financial statements were not prepared in accordance with GAAP and contained errors. All errors were corrected prior to the Audit's issuance.

The audit report recommended that the CWSRF financial statements be accurately prepared in accordance with GAAP and that someone knowledgeable of financial reporting requirements and independent of the financial statement preparation process perform a thorough review of the SRF's financial statement and supporting schedules to ensure they are accurate, complete and presented accordance with GAAP.

Ecology responded that they recognized the importance of its Senior Financial Advisor position, including the assigned duty of preparing the Water Pollution Control Revolving Account financial statements. They stated that the incumbent had resigned and they had immediately begun the recruitment process for a qualified replacement. By the time the Audit was issued, a qualified replacement had been selected for the position. The new Senior Financial Advisor started on July 15, 2014. **No further action is necessary.**

EPA greatly appreciates that Ecology arranges an annual financial audit, and understands that this process can take a lot of Ecology staff time, especially for the Fiscal Department. EPA would like to especially thank Ecology for contracting with an external party for the SFY 2014 Financial Statements Audit Report given that the State Auditor's Office did not think they would be able to complete the audit this year. The independent audit provides EPA, oversight agencies, and the public, confidence that SRF funds are disbursed quickly, accurately, and only for eligible costs.

#### SINGLE AUDIT ACT

The Single Audit Act (SAA) and amendments require non-Federal entities that expend \$500,000 or more of Federal funds in a year to have a single audit conducted. Sources of Federal funds include, but are not limited to, SRF programs, health care,

social services, infrastructure, highways, and education. In March 2015, the Office of Financial Management issued the statewide Single Audit for the State of Washington covering the fiscal year ending June 30, 2014.

Included in the Single Audit is a report on compliance with requirements that could have a direct and material effect on each major program and internal control over compliance in accordance with OMB circular A-133. In the SFY 2014 statewide single audit, the CWSRF was identified as a major program. The State Auditor's issued an unmodified opinion, and stated that the State complied, in all materials respects, with the types of compliance requirements that could have a direct and material effect. Though there were several State Agencies and Programs with findings and questioned costs, there were none for the CWSRF.

## **FEE INCOME**

Many States have cumulative CWSRF administrative costs that exceed four percent of the Federal capitalization grant. The EPA allows States to charge fees on CWSRF loans to supplement this four percent limit. EPA's, *Guidance on Fees Charged by State's to Recipients of CWSRF Program Assistance* was issued in the Federal Register on October, 20, 2005. This guidance states,

...if program income is deposited into an account outside the fund, it may be used to supplement fund administration costs above the CWA's four percent ceiling on administration costs...If fees collected are deposited in the CWSRF then their use is limited to those purposes identified in Title VI of the CWA...the use of such fees for administering the fund would be subject to the CWA's four percent ceiling on administration costs.

On May 1, 2013, the Governor signed Substitute House Bill (SHB) 1141. SHB 1141 amended *Chapter 90.50A RCW, Water Pollution Control Facilities-Federal Capitalization Grants* to authorize Ecology to assess an administrative charge on each CWSRF loan at the point the loan enters repayment status. SHB 1141 also created a new account in the State Treasury, the Water Pollution Control Revolving Administration Account. Through the first half of SFY 2014 Ecology formally amended *Chapter 173-98 WAC, Uses and Limitation of the Water Pollution Control Revolving Fund*, to be able to implement the new administrative charge. By January 2014, Ecology was able to amend loan agreements as they were about to enter repayment status by adding the administrative charge to the final amendment terms and sending it, with an updated amortization schedule, to borrowers for signature.

As of June 30, 2014, Ecology had only collected \$15,280.23 in fee revenue. To date, fee revenue has appropriately been deposited into the new Administrative Account, Fund 564. SHB 1141 restricted the use of these funds to be used for administration of the CWSRF, providing technical assistance, meeting state and federal reporting requirements, and information and data system costs associated with loan tracking and fund management. SHB 1141 also requires, starting with the 2017 biennium, that every

two years Ecology compare the projected administrative charge (fee) income with projected program costs to determine if future administrative charges should be increased or decreased. Additionally, if there is an excess in Administrative Account 564, that excess must be transferred into the CWSRF to be used for loans.

Ecology has done an exceptional job throughout the entire two year process in working with the State Legislature to explain EPA's CWSRF fee policy, what the administrative charge could and could not be used for, and working with EPA to ensure that the rule language and accounting structure Ecology established all fit within the allowable parameters of EPA's fee policy.

### **CASH DRAW TRANSACTION TESTING**

An important part of the annual review process is checking federal capitalization grant cash draw transactions and loan disbursement documentation. In response to the Improper Payments Elimination and Recovery Act, the Office of Management and Budget (OMB), through the EPA Office of the Chief Financial Officer (OCFO), directed that the CWSRF be subject to a random selection of transactions to develop a national estimate of improper payments from this program.

During the SFY 2014 annual review, EPA looked at eight cash draws from the federal capitalization grants and the associated project loan disbursements; one of these draws was selected by EPA Region 10 and seven were assigned by OCFO. Upon request, the Ecology Fiscal Department provided accounting records for EPA to evaluate the procedures for federal grant cash draws, state match deposits, and disbursements to borrowers from the Washington CWSRF. This year the large number of draws, new senior financial advisor, and the steep learning curve associated with Ecology's accounting systems and procedures led to an unusually complicated review. With support from the fiscal manager and many hours of investigation, EPA successfully reconciled Ecology's transactions.

Ecology's Financial Management Section provided EPA with through, complete, detailed borrower payment requests, including summaries detailing all attached invoices associated with each request. As is evident from the long list of disbursements below, the Financial Management Section this year needed to provide EPA with 2-3 times as many payment requests for transaction testing than usual.

EPA reviewed the following eight SFY 2014 cash draws from EPA grants CS 530001-11 and CS 530001-12:

- **October 15, 2013 (CS 530001-11) – Federal Cash Draw \$87,637.00; State Match \$17,536.82 (OCFO assigned).** Additional \$120,177.00 paid from CS 530001-11 with \$24,035.98 Match.
  - \$249,386.88 for Ecology administration of the CWSRF.

- **June 12, 2014 (CS 530001-12) – Federal Cash Draw \$103,243.00; State Match \$20,653.07 (OCFO assigned).**
  - \$123,896.07 for Ecology administration of the CWSRF.
- **June 24, 2014 (CS 530001-11) – Federal Cash Draw \$2,455,777.00; State Match \$491,273.00 (OCFO assigned).**
  - \$2,947,050.00 for King County Department of Natural Resources and Parks Wastewater Treatment Division (L1300011, Payment #1).
- **June 24, 2014 (CS 530001-11) – Federal Cash Draw \$2,950,921.00; State Match \$590,196.31 (OCFO assigned).** Additional \$1,146,298.00 paid from CS 530001-12 with \$229,443.68 Match.
  - \$4,916,858.99 for King County Department of Natural Resources and Parks Wastewater Treatment Division (L1300012, Payment #1).
- **June 24, 2014 (CS 530001-11) – Federal Cash Draw \$752,902.00; State Match \$150,616.55 (OCFO assigned).** Additional \$13,771.00 paid from CS 530001-11 with \$2,755.32 Match.
  - \$263,455.45 for the City of Kettle Falls Wastewater Treatment Facility (L1000036/L10S00036, Payment #24).
  - \$5,182.24 for the City of Kettle Falls Wastewater Treatment Facility (L1000036/L10S00036, Payment #25).
  - \$57,525.41 for the City of Kettle Falls Wastewater Treatment Facility (L1000036/L10S00036, Payment #26).
  - \$18,228.38 for the City of Kettle Falls Wastewater Treatment Facility (L1000036/L10S00036, Payment #27).
  - \$257,017.34 for the City of Kettle Falls Wastewater Treatment Facility (L1000036/L10S00036, Payment #28).
  - \$318,583.11 for the City of Kettle Falls Wastewater Treatment Facility (L1000036/L10S00036, Payment #29).
- **June 24, 2014 (CS 530001-11) – Federal Cash Draw \$127,718.00; State Match \$25,550.36 (OCFO assigned).** Additional \$291,163.00 paid from CS 530001-11 with \$58,246.61 Match
  - \$84,697.98 for the Yakima Methane Utilization/Energy Conservation Project (L1000036/L10S00036, Payment #3).
  - \$417,979.99 for the Yakima Methane Utilization/Energy Conservation Project (L1000036/L10S00036, Payment #2).
- **June 24, 2014 (CS 530001-12) – Federal Cash Draw \$70,115.00; State Match \$14,026.01.**
  - \$84,141.01 for King County Department of Natural Resources and Parks Wastewater Treatment Division Murray Combined Sewer Overflow CSO Project (L1300012, Payment #2).

- **June 24, 2014 (CS 530001-11) – Federal Cash Draw \$10,499.00; State Match \$2,100.75; Repayments \$3.00 (OCFO assigned).** Additional \$10,499.00 paid from CS 530001-12 with \$2,100.75 Match
  - \$3,435.00 for the Riverside Facility Plan and Reports (L1300019/L13S00019, Payment #11).
  - \$1,520.00 for the Riverside Facility Plan and Reports (L1300019/L13S00019, Payment #10).
  - \$1,470.00 for the Riverside Facility Plan and Reports (L1300019/L13S00019, Payment #9).
  - \$12,570.00 for the Riverside Facility Plan and Reports (L1300019/L13S00019, Payment #8).
  - \$6,207.50 for the Riverside Facility Plan and Reports (L1300019/L13S00019, Payment #7).

All but two of the costs associated with the above draws appear to be eligible for CWSRF funding. Each cash draw had consistent documentation and accounting records. EPA found that project specific invoices were very well organized, detailed, and complete. Detailed below are the three improper payments found when testing the draws from EPA capitalization grants, disbursements to borrowers, and invoiced amounts of disbursements.

To comply with EPA's requirements regarding the proportion of Federal funds drawn, Ecology disburses directly to assistance recipients from the CWSRF Fund 727. Subsequent to the disbursement, Ecology reimburses the CWSRF Fund with 83.33% Federal grant dollars and 16.67% State Match. For administrative expenses, the required State Match was deposited into the CWSRF as a lump sum in advance and Federal funds are still drawn at 83.33% to reimburse the CWSRF for expenses after they have been paid. Except as stated below, Federal funds were drawn appropriately for these eight cash draws.

#### IMPROPER PAYMENTS

##### *Improper Payment #1*

On October 15, 2013, Ecology drew \$87,637 from EPA grant CS 530001-11 to reimburse the CWSRF (Fund 727) for administrative costs. All costs appear eligible for CWSRF payment, however the Ecology cashier incorrectly deposited the capitalization grant funds into the General Fund (Fund 001) instead of the CWSRF (Fund 727). The mistake was discovered and corrected when the Fiscal Manager prepared the annual Schedule of Expenditures of Federal Awards. On August 25, 2014, Ecology completed the necessary journal vouchers for the statewide accounting system to correct the 001 and 727 Fund receivables, liabilities, and transfer the \$87,637 from Fund 001 to 727. Additionally, reviewing deposits has been added to the monthly reconciliation process by Ecology's cashing unit. **No further action is necessary.**

### *Improper Payment #2*

On June 24, 2014, Ecology drew \$752,902 from EPA grant CS 530001-11 to reimburse the CWSRF (Fund 727) for prior disbursements to the City of Kettle Falls for the Wastewater Treatment Facility loan L1000036/L10S00036. All costs appear eligible for CWSRF payment except for \$62.94. Kettle Falls' payment request #24 to Ecology included IMCO General Construction invoice 3112\*21. On the IMCO invoice was a handwritten note stating that the Community Development Block Grant (CDBG) program would pay \$43,041.09. Kettle Falls' mistakenly requested, and was paid, \$62.94 more than allowed once the CDBG portion was deducted from the invoice total.

With Kettle Falls' payment request #27, a corrected IMCO invoice 3112\*21 was submitted documenting an additional \$62.94 of incurred costs. Though this would have addressed the issue, IMCO was unaware that the City of Kettle Falls had already requested and received the extra \$62.94 from Ecology. IMCO added the \$62.94 to invoice 3112\*23 since they had not yet been paid for this work. Kettle Falls, apparently unaware that they'd already received the extra \$62.94 from Ecology, requested the full amount of invoice 3112\*23 for reimbursement in payment request #27. Ecology disbursed the full requested amount, thus paying the \$62.94 for a second time.

Kettle Falls loan L1000036/L10S00036 is already closed and in repayment status. On June 29, 2015, Ecology sent Kettle Falls a letter explaining the overpayment and requesting the funds be returned. Ecology's letter included a request that, "the City's transmittal letter that the \$62.94 came from the \$752,902 Federal Draw made on 6-24-14 from capitalization grant CS 530001-11." Ecology received a check for \$62.94 from Kettle Falls on July 28, 2015, deposited into the CWSRF (Fund 727), and disbursed it to the Town of Carbonado for the wastewater facilities plan and environmental report, loan L1400012 on July 30, 2015. **No further action is necessary**

### *Improper Payment #3*

On June 24, 2014, Ecology drew \$127,718 from EPA grant CS 530001-11 to reimburse the CWSRF (Fund 727) for prior disbursements to the Yakima Methane Utilization/Energy Conservation Project loan L1200019/L12S00019. All costs appear eligible for CWSRF payment except for \$3,104.35.

Based on payment requests and eligible incurred expenses, Yakima was initially disbursed \$169,217.64 less for payment requests #2 and #3 than had been approved. Since the Yakima project is one Ecology uses to fulfill the GPR requirement, the GPR portion of the project is provided 50% principal forgiveness. An employee in the Fiscal department only disbursed payments for two of the three categories (SRF, GPR and principal forgiveness) for both payment requests #2 and #3, thus creating underpayments. The lead Financial Analyst who reviews all documents for accuracy had been out of the office and the analyst's back up did not notice the errors. On March 10, 2015 a single correcting payment of \$169,217.64 was sent to Yakima.

No further action would have been necessary except that when EPA completed the transaction testing, EPA found a \$3,104.35 discrepancy between Shannon Industrial Contractors invoices #6 and #7 and their associated payments requests. Ecology then contacted Yakima and confirmed that Yakima's payment records show that though it billed Ecology based on one retainage rate, Yakima paid the contractors based on a higher retainage amount. Thus the \$169,217.64 disbursement made on March 10, 2015 to correct the prior underpayment, led to a \$3,104.35 overpayment.

Yakima loan L1200019/L12S00019 has been fully disbursed. On July 9, 2015, Ecology sent Yakima a letter explaining that Yakima had overbilled Ecology and that, "this letter is serving as notification of the city's inaccurate payment request submittal on the abovementioned project, and Ecology's request for reimbursement of the overpayment of \$3,104.35. In order for Ecology to be in compliance with all federal reporting and accountability requirements, the City's check must be received by Ecology no later than July 29, 2015." A final loan amendment and amended amortization schedule reflecting the deducted overpayment amount was enclosed for signature with the letter Ecology received a check for \$3,104.35 from Yakima on July 15, 2015, deposited into the CWSRF (Fund 727), and disbursed it to the Town of Carbonado for the wastewater facilities plan and environmental report, loan L1400012 on July 30, 2015. **No further action is necessary.**

## FINANCIAL INDICATORS

The Washington CWSRF program has performed exceptionally well according to financial indicators established for the program nationally. The table on the following page provides a comparison of recent fiscal year performance according to financial indicators by which state CWSRF programs are evaluated<sup>14</sup>.

Indicator #2 (99%) shows that Ecology is prioritizing the signing of assistance agreements with communities and effectively committing funds to projects. Beginning in SFY 2013, Ecology began advanced cash flow modeling to accelerate the pace of loan obligation. In SFY 2014, this plan allowed Ecology to sign \$40 million more in loans than the prior, more conservative process had allowed. For SFY 2015, Ecology accelerated a bit further out and was able to sign \$110 million more in loans than they would have been able to; thus Indicator #2 should again show another dramatic increase in next year's financial indicators. This performance indicator is important for the CWSRF since the higher the percentage, the more projects are being funded in the State and the greater the environmental benefits.

Over time, accelerated obligation rates also lead to accelerated disbursement rates and decreased unliquidated obligations. Ecology requires CWSRF loan recipients to start construction, or equivalent, within 10 months of IUP publication. Since it takes on

---

<sup>14</sup> The SFY 2014 data in CWNIMS may be adjusted during SFY 2015 end-of-year reporting and may affect the results of these indicators.



average 3-4 years to fully disburse most loans agreements, it will naturally take several years to reach Ecology's goal of minimizing the CWSRF Fund balance at the State Treasury's to \$30-\$40 million. It would also be expected that as the percentage of funds available signed into loan agreements (Indicator #2) continues to rise the percentage funds disbursed to those loan agreements (Indicator #3) will naturally fall for the first few years.

**Table 3: Financial Indicators**

<i><b>Financial Indicators for SFY 2013 and SFY 2014</b></i>				
<i>Description</i>	<i>Washington SFY 2013<sup>15</sup></i>	<i><b>Washington SFY2014<sup>16</sup></b></i>	<i>Regional Average<sup>17</sup> for SFY2014</i>	<i>National Average<sup>18</sup> for SFY2014</i>
<i><b># 1- Return on Federal Investment</b> - Shows the amount invested in water quality beneficial projects for each federal dollar invested</i>	202%	<b>200%</b>	192%	187%
<i><b># 2-Percentage of Executed Loans to Funds Available For Loans</b> - Shows the amount of signed loan agreements compared to the amount of funds available for loans</i>	97%	<b>99%</b>	100%	93%
<i><b># 3-Percentage of Funds Disbursed to Executed Loans</b> - Shows the amount of funds actually disbursed compared to the amount of signed loan agreements</i>	89%	<b>86%</b>	79%	84%
<i><b># 4-Benefits of Leveraging</b> (generating additional SRF funds by issuing bonds)</i>	N/A	N/A	N/A	N/A
<i><b># 5-Perpetuity of Fund</b> - Demonstrates whether the program is maintaining its contributed capital. positive result indicates the Program is maintaining its capital base</i>	\$182.2M	<b>\$195.3M</b>	N/A	N/A
<i><b># 6-Estimated Subsidy</b> - An estimate of the CWSRF interest rate subsidy, stated as a percentage of the market rate.</i>	29.7%	<b>51.1%</b>	57.2%	68.2%

<sup>15</sup> The first three indicators are cumulative from program inception thru SFY 2013. Data from 2014 CWNIMS

<sup>16</sup> The first three indicators are cumulative from program inception thru SFY 2014. Data from 2014 CWNIMS

<sup>17</sup> Regional Average is for Alaska, Idaho, Oregon, and Washington. Data from 2014 CWNIMS

<sup>18</sup> National Average is for all US states that do not leverage their loan program. Data from 2014 CWNIMS.

---

## CONCLUSION AND ACTION ITEMS

---

EPA appreciates Ecology's improvements to an already well-run CWSRF program. Notable this year are Ecology's acceleration of water quality project funding through the use of advanced cash flow modeling and impressive green project funding, especially the \$9.8 million for water reclamation components at the Chambers Creek project. In addition, Ecology did an exceptional job throughout the entire two year process in working with the State Legislature to explain EPA's CWSRF fee policy, what the administrative charge could and could not be used for, and working with EPA to ensure that the rule language and accounting structure Ecology established all fit within the allowable parameters of EPA's fee policy.

**There are no required or recommended actions.**

---

## **APPENIX A: ANNUAL & FILE REVIEW CHECKLISTS**

---

### **ANNUAL REVIEW CHECKLISTS**

PROGRAMMATIC CHECKLIST

FINANCIAL CHECKLIST

SUSTAINABILITY CHECKLIST

### **FILE REVIEW CHECKLISTS**

FILE REVIEW CHECKLIST #1: PIERCE COUNTY CHAMBERS CREEK PROJECT (LOANS #L1400020)

FILE REVIEW CHECKLIST #2: CITY OF GRANGER (LOAN# L1300029)

## Use of these Checklists

The checklists that follow are designed to provide a convenient method for ensuring that the annual review has addressed all of the major review elements.

The checklists are organized by topic for easy reference and do not represent a suggested order for conducting the review. For example, project file reviews may touch on many different annual review topics and the checklists provide a mechanism to quickly locate the topic and record the findings while moving from one topic to another. Once the review is completed, all of the topics must either be specifically addressed or noted as not being covered during this review. If an area was not reviewed, note the reason for not reviewing it and any future review activities.

For the items that are reviewed, the requested information on the checklist must be completed noting your findings. Make sure to check all data sources that were used in determining the findings. Pertinent attachments should be added to the checklists and referred to as is appropriate. The checklists must be used as your work papers for the overall evaluation and a reference document in the future to prepare for the next annual review.

It should be noted that the checklist topics are references and are not intended to be comprehensive statements of each program item. Other supporting documents, such as the Annual Review Guidance, program documents provided in the SRF Document Library, the SRF Audit Compliance Supplement, the EPA SRF Financial Planning Model, and many other SRF related information and tools should be utilized to delve in depth into specific review topics.

# SRF Annual Review Information Sheet

Annual Review Checklist

State Under Review: Washington

For SRF Fiscal Year Beginning: 7/1/2013 Ending: 6/30/2014

Annual Report Received: 10/24/2014

Annual Audit Received: 3/1/2015

Audit Year: SFY 2013

State Contact: Shelly McMurry, Ecology CWSRF Coordinator

Phone No. 360-407-7132

<b>Core Review Team:</b>	
Unit Manager	Krista Mendelman (Acting)
Financial Analyst	Michelle Tucker
Project Officer	David Carcia

<b>State Staff Interviewed:</b>
Jeff Nejedly (Manager, Financial Section)
Lisa Darnell (Manager, Fiscal Office)
Debbie Iness (Accounts Receivable Manager)
Pat Brommer (Policy & Administration Unit Supervisor)
Shelly McMurry (CWSRF Program Coordinator)
Liz Ellis (SERP Coordinator)
Daniel Thompson (Program Analyst)
David Dunn (Environmental Engineer)
Tammy McClure (Financial Manager)

Project files reviewed:	Project #1: Pierce County (Loan #L1400020)
Transactions reviewed:	Cash Draw #1: 10/15/2013 - \$87,637.00
	Cash Draw #3: 6/24/2014 - \$2,455,777.00
	Cash Draw #5: 6/24/2014 - \$752,902.00
	Cash Draw #7: 6/24/2014 - \$70,115.00

Project #2: City of Granger (Loan #L1300029)
Cash Draw #2: 6/12/2014- \$103,243.00
Cash Draw #4: 6/24/2014 \$2,950,921.00
Cash Draw #6: 6/24/2014 \$127,718.00
Cash Draw #8: 6/24/2014 \$10,499.00

	First Team Meeting	Second Team Meeting	On-Site Visit	Draft PER	Final PER
Estimated Date:	10/2/2014	10/24/2015-4/15/2015	5/12/15 - 5/14/15	7/10/2015	7/31/2015
Actual Date:	10/2/2014	10/24/2014-4/14/2015	5/12/15 - 5/14/15	7/21/2015	8/14/2015

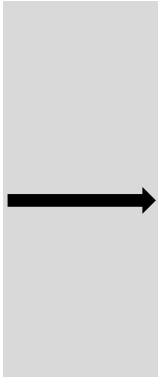
## Annual Review Checklist

## Required Program Elements

Review Item and Questions to Answer	Yes	No	N/A	Onsite Discussion Summary
<b>1.1 Operating Agreement</b>				
1 When was the last update to the State's Operating Agreement?				8/20/2008
2 Discuss whether the current Operating Agreement accurately reflects the State's program.				Changes to the program in recent years, including the SRF administrative charge and WRRDA, are not yet reflected in the operation agreement (OA)
a. Has the OA been updated to include any changes to the SERP, use of bonds for leveraging/state match, sub-state revolving fund programs (i.e., nonpoint source sponsorships), or other significant program changes?		X		The OA was last updated 8/20/2008.
3 If the OA does require an update, what is the plan for doing so (i.e., adding an amendment, using examples from other states, etc.)?				Ecology plans to review all changes between October and December 2015 for possible inclusion in an updated OA after higher priority rulemaking, IUP, grant application and annual report work is completed.
<b>1.2 Annual Report</b>				
1 Date that the Annual Report was submitted to the Region:				10/24/2014
2 Does the State's Annual Report meets the following requirements:				
a. Reports on progress towards goals and objectives	X			Short-term and long term goals and Ecology progress toward achieving them are included, Annual Report, Pp.6-14.
b. Reports on use of funds and binding commitments	X			Ecology provides list of project binding commitments for the year, Annual Report, Table 4, Pp. 16-18.
c. Reports on the timely and expeditious use of funds	X			Binding commitments are stated as 105.2% of total available funds. Ecology obligate a portion of the projected loan repayments by using a cash flow model, which is updated quarterly to determine the funds available for each funding cycle. Annual Report, p.27.
d. Identifies projects and types of assistance provided.	X			The annual report includes a good level of detail on the projects that were funded, Annual Report, Table 4 p.16-18.
e. Includes financial statements and cross-references independent audit report	X			The annual report includes unaudited financial statements. SFY2014 audit is yet to be published, Annual Report, Pp. 39-42.
f. Provides assessment of the SRF's financial position and long-term financial health	X			Ecology reports on fund management and health of the account, Annual Report, p.27.
g. Demonstrates compliance with all SRF assurances and certifications	X			Ecology makes SRF assurances compliance a requirement of all loan agreements. Annual Report, p. 36.
h. Demonstrates compliance with SRF program grant conditions	X			Annual report shows compliance with grant conditions, including compliance with ASR, GPR, CBR environmental benefits summary report and binding commitments.

Annual Review Checklist

Required Program Elements

Review Item and Questions to Answer		Yes	No	N/A	Onsite Discussion Summary
i. Documents eligible Green Project Reserve projects that were funded		X			The annual report establishes that Ecology meets program grant conditions, including the minimum dollar amounts for eligible, GPR Section & Table 7, Annual Report, p.20.
j. Documents projects that received additional subsidy		X			Annual Report, p.21.
k. Documents whether additional subsidy was directed to projects in communities that could not otherwise afford such projects. If not, was an explanation provided for why this decision was made? [Provide explanation in Discussion column.]		X			Ecology awards ASR to hardship communities and GPR projects. Nine projects received ASR as principal forgiveness loans: five loans went to hardship communities, three went to an GPR project, and one went to a project that was both GPR and hardship ASR, Annual Report, Pp.21-23.
l. Documents whether additional subsidy was directed to projects that repair or replace existing infrastructure; projects that include plans, studies, etc. to improve technical, managerial and financial capacity; and/or projects that reflect the full life cycle costs of infrastructure assets. If not, was an explanation provided for why? [Provide explanation in Discussion column.]		X			In accordance with the EPA ASR sustainability policy, Ecology stated in the annual report which of the sustainability criteria were met with individual ASR funded projects, such as that repair or replace existing infrastructure, etc. Annual Report, Table 8.
3 Includes a CWSRF Benefits Reporting System (CBR) summary report or "one-pager" for all projects funded.		X			CBR summary report generated from the CBR database in the annual report, p.24.
<b>1.3 Short and Long-Term Goals</b>					
1 How does the State establish short-term environmental goals?					
a. What is the State doing to achieve these goals?					Ecology reviews short and long term goals as part of its ongoing collaboration with its Water Quality Financial Assistance Council (WQFAC) representing statewide stakeholders who provide recommendations. Progress toward short-term goals is provided in the Annual Report Annual Report, Pp. 13-17.
2 How does the State establish long-term environmental goals?					Ecology solicits input for internal staff workgroups, external stakeholders, including the Water Quality Financial Assistance Council , and the SRF Management Oversight Team of senior management, including Ecology's Water Quality Program Manager, CFO and Budget Director, as members of the CWSRF Executive Oversight Committee.
a. What is the State doing to achieve these goals?					Progress toward short-term goals is provided in the Annual Report, Pp.6-14.

## Required Program Elements

Review Item and Questions to Answer	Yes	No	N/A	Onsite Discussion Summary
<b>1.4 Funding Eligibility</b>				
1 Discuss the State's internal controls for funding eligibility. How does the State ensure that SRF funds do not go to ineligible projects or ineligible expenses?				<p>To ensure that only eligible SRF projects are funded, at least two Ecology regional CWSRF staff review and score each application based on Ecology's eligibility criteria. As a quality control, any significant differences between regional reviewers are resolved by Ecology headquarters staff with CWSRF technical expertise. To prevent CWSRF paying for ineligible expenses Ecology has developed a risk based system for reimbursement requests. For projects that were designated as "low risk," the Ecology Financial Manager evaluates every line item purchase for each invoice submitted. If all items are eligible and mathematical totals accurate, the Financial Manager approves the payment and sends up to Fiscal Office to process. For projects that were designated as "high risk," the process is the same as for the "low risk" projects but BOTH the Financial Manager and the Regional PO/engineer must go through each line of every invoice &amp; sign off on approval to send to Fiscal for processing. During onsite discussions, Ecology said that starting SFY2015 they will switch to using the same double-check internal controls for all projects regardless of whether or not they are deemed "low risk" or "high risk."</p>
2 Discuss the State's policy for collecting documentation from assistance recipients to support the amount and eligibility of disbursement requests. What type of documentation is required, how are invoices reviewed, etc.?				<p>Borrower sends Ecology's Financial Manager (FM) forms A-19-1A (full loan amount, amount rcvd to date, and amount currently being requested), form B2 (running budget summary for projects with cash expenditures only), C2 (voucher support for projects with cash expenditures only - line items summarizing each cost incurred) and all invoices (back-up documentation) associated with the disbursement request. Ecology has a risk based approach for invoice review. For projects designated as "Low Risk" Ecology's FM reviews all forms &amp; invoices, concurs with all costs, checks items for eligibility and against the rules of cash draw, etc. FM can request support from the regional PO and/or engineer but it's not required. Once the FM concurs with the amount of the disbursement request, the concurrence is added to form A-19-1A and sent to the Fiscal Office to process. For projects designated as "High Risk," the process is identical to "low risk" projects but BOTH the FM AND the Regional PO/engineer must go through each line of every invoice and sign off on the approval prior to sending up to the Fiscal Office for payment. In addition to regional folks reviewing all parts of the borrower's payment request for eligibility, they also confirm that the amount requested to date is consistent with project completion based on a site visit. Once the Fiscal Office receives the A-19-1A form with the FM initials (or FM &amp; regional PO in case of projects deemed high risk) then the Fiscal staff input information into the State systems to process payment from the correct accounts and with appropriate funding codes. A second Fiscal staff (usually team leader) reviews the records input into the State system and if s/he concurs then the batch is processed for payment.</p>



## Required Program Elements

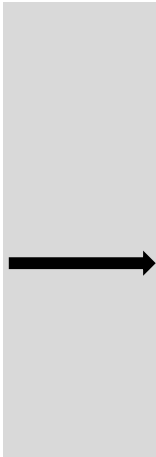
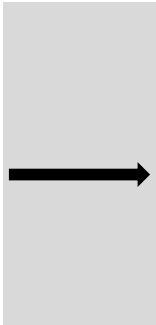
Review Item and Questions to Answer		Yes	No	N/A	Onsite Discussion Summary
<b>1.5 Reporting</b>					
1	Has the State entered data for all projects in the Annual Report into the CBR database?	X			All projects entered into CBR, according to CBR as checked by project officer on 7/20/2015.
	a. Are the records complete, to the extent possible?	X			see previous comment.
2	Has FFATA data been entered into usaspending.gov for projects in an amount equal to the capitalization grant?	X			FFY13 projects selected by Ecology for FFATA were entered into www.fsrs.gov by the end of the month following the month that the loans were signed by Ecology.
3	Does the State submit Interim Federal Financial Reports for all open grants?		X		Region 10's shared financial center in Vegas does not require interim FFRs for regular CWSRF grants (they were only required for EPA's ARRA grants)
4	What is the State's process for ensuring timely and accurate CBR data entry?				Ecology uses a de-centralized data entry approach to ensure timely and accurate CBR data entry. Project managers enter the project-specific, technical information and the financial managers are responsible for ensuring CBR has the correct loan terms as awarded or amended.
<b>1.6 Staff Capacity</b>					
1	How many CWSRF staff members does the State have in the following areas?				
	a. Accounting & Finance				There are four partial (major) and several additional minor FTE's as financial managers. The Fiscal Office also has six partial FTE's (20-80% for each) to process disbursements, repayments, etc.
	b. Engineering and field inspection				Four FTE for regional POs, several partial FTEs with engineering expertise to review P&S, approve invoices, and conduct inspections.
	c. Environmental review / planning				One FTE HQ handles cross cutters and ER coordination as do each of the four regional POs; Four partial (major) HQ FTEs for planning and coordination.
	d. Management				One Sectional manager and one unit supervisor use partial FTEs each for overall HQ management of CWSRF; four regional managers use partial FTEs to manage CWSRF in in eastern, central, western, and northwestern regions.
2	What is the State CWSRF program's current situation with regard to hiring and training new staff?				The CWSRF program is viewed as an important financing tool in the State and the CWSRF has been able to replace existing staff positions as they are vacated, as well as acquire two new FTE in recent years. During onsite discussions, Ecology indicated they will be backfilling for an upcoming retirement and hiring a full FTE for the CWNS work and utility user rates study. Funds have also been available for training; CWSRF staff have been able to regularly attend both the spring and fall CIFA meetings as well as regional all states meetings, regional EPA training, and other training opportunities as needed.
3	Is current staffing sufficient to manage the program?				Yes. Ecology has recently replaced both the Environmental Review Coordinator and Senior Financial Advisor positions.

Annual Review Checklist

Required Program Elements

Review Item and Questions to Answer	Yes	No	N/A	Onsite Discussion Summary
<b>1.7 Compliance with Environmental Review Requirements</b>				
<b>1</b> Do the State's environmental review procedures (as described during onsite interviews) accurately reflect the process as described in the State Environmental Review Process (SERP)?				<p>Yes. Ecology follows the currently active SERP. Ecology clarified language in the SERP regarding Endangered Species and CatEx determinations for onsite septic projects to ensure better documentation from their CWSRF sub-recipients. A revised version that will include relevant CWSRF WRRDA or National Historic Preservation Act changes is expected to be completed by September 30, 2015.</p>
<b>2</b> Describe the State's decision process and documentation requirements for issuing the following environmental review determinations: a. Categorical Exclusion (CE) or the State equivalent          b. Environmental Assessment (EA)/Findings of No Significant Impacts (FONSI) or the state equivalent          c. Environmental Impact Statement (EIS)/Records of Decisions (ROD) or the State equivalent				<p>Washington state law requires local projects to undergo a State Environmental Policy Act (SEPA) process, which is completed at the local level. The CWSRF SERP require Ecology to ensure that this determination meets criteria for a CatEx: a regional project officer concludes whether or not the local determination for the project adequately fits the list of categorical exclusions in state rule, completes a checklist to determine that there are no extraordinary circumstances that might still cause the project to under go review. If the project is allowed a CatEx and does not also have extraordinary circumstances, then the project officer documents Ecology's CatEx determination in the project file.</p>
				<p>If the project is not eligible for a CatEx, then a regional project officer reviews an applicant's environmental documentation. If the state's review confirms a determination of non-significance, then Ecology affirms the FNSI and document this in the project file.</p>
				<p>If the SEPA checklist results in a Determination of Significance, then the project is required to complete the SEPA EIS process. A draft EIS includes a review of alternatives, including the no action option, environmental impacts, and mitigations planned to address those impacts. The draft EIS is made available for public comment. The final EIS contains responses to the comments and is considered the record of decision. Seven days after the final EIS is publically noticed, the project can proceed with the action as proposed in the final EIS.</p>
<b>3</b> How does the State ensure that public notices and meetings, as required by the SERP, are provided during the environmental review process?				<p>Ecology's requires notice of public meeting (hearing) to be documented in the regional project files before a treatment works project can be funded by SRF.</p>
<b>4</b> How are documented public concerns addressed/resolved by the State in the environmental review process?				<p>Washington state law requires local projects to undergo a State Environmental Policy Act (SEPA) process, which is completed at the local level. Under SEPA, the local agency responsible for the SEPA process is required to publicly notice its determination and accept and consider any comments received. Under the CWSRF SERP requirement Ecology is required to review the local determination for sufficiency, including whether or not public concerns were adequately addressed. See the project review checklists for details on how the City of Granger and Pierce County, Chambers Creek projects addressed public comments.</p>

## Required Program Elements

Review Item and Questions to Answer		Yes	No	N/A	Onsite Discussion Summary
<b>1.8 Compliance with Federal Cross-Cutting Authorities (Cross-Cutters)</b>					
1	What is the State's process for ensuring compliance with Federal cross-cutting authorities?				Ecology uses a set of checklists and Ecology guidance documents to determine compliance with all cross cutting authorities. If consultation is needed, Ecology engages the appropriate agency (e.g. USFWS or NMFS for ESA compliance) and documents the results in the project file.
2	Does the State use equivalency procedures in applying Federal cross-cutting authorities, and if so, how are assistance recipients selected to comply?				Ecology applies all cross cutters to all POTW construction projects, a small subset of cross cutters to Stormwater projects, and exempts non-point source and planning projects completely. Post WRRDA, Ecology plans to apply cross cutters only to POTW construction & Design/Construct (i.e. starting in SFY2016) to meet equivalency requirement. Since Ecology spends a majority of the SRF funding on POTW construction, this policy ensures that the minimum required cross cutter requirements are also met.
3	What is the State's process for applying Federal cross-cutting authorities to nonpoint source projects or projects that received Categorical Exclusions from environmental review requirements?				Ecology does not apply cross cutters to non-point projects or to projects deemed to be CatExs; which combined constitute a small percentage of overall project funding from Ecology's SRF program.
4	Were there any issues which required formal consultation with other State or Federal agencies, and were these resolved?				There were no formal consultations. See the project review checklists for City of Granger (L1300010) and Pierce County, Chambers Creek (L1400029).
<b>1.9 Compliance with Disadvantaged Business Enterprise Requirements</b>					
1	What is the State's process for ensuring compliance with DBE requirements?				Ecology puts the DBE requirement in the loan agreement, has an SRF bid insert that includes the Fair share objectives, six good faith efforts, DBE contract administration, DBE contract language and 6100 forms. Project officers maintain copies of completed 6100 forms in regional files. Borrowers send Ecology DBE reports (or Form D of the project's disbursement request) to report DBE utilization. These individual project DBE reports are aggregated into the 5200-52As and sent to EPA DBE coordinator.
2	Did the State collect 5700-52A DBE reports from assistance recipients (for projects equal to the cap grant) by April 30th and October 30th?				Yes. Recipients report DBE utilization with each disbursement request. During the onsite Ecology Fiscal staff shared the DBE spreadsheet to show how they collect individual DBE disbursements, allowing them to aggregate DBE for the annual report to EPA's DBE coordinator.

Annual Review Checklist

Required Program Elements

Review Item and Questions to Answer		Yes	No	N/A	Onsite Discussion Summary
<b>1.10 Green Project Reserve Requirements</b>					
1	Has the State entered into assistance agreements to meet the GPR requirement?*	X			FY2013 grant GPR requirement of \$2,321,700. Ecology signed GPR eligible loans totaling \$5,501,700.
	a. If not, when and how does the State plan to meet the requirement?				n/a
	b. If the State identified carryover GPR projects in the Annual Report, what actions is the State taking to ensure that these projects have an assistance agreement by the end of the fiscal year?				Ecology's annual report did not identify any carryover GPR projects.
2	Does the State's current process for marketing and solicitation of GPR projects appear adequate for identifying a sufficient number of GPR projects?	X			Ecology identified over the minimum required GPR in their IUP.
	a. If no, Does the State plan to revise their solicitation process?			X	Ecology already improved the process.
3	Review the CBR data for one or two GPR projects with loans closed during the year under review. From the project descriptions provided, do the projects appear to be eligible GPR projects?	X			Pierce County (L1400020) and Bellingham (L1400010)
	a. Are the projects reported in the correct GPR category?				Bellingham (L1400020) GPR is correctly reported as Green Infrastructure GPR in CBR. Pierce County (L1400020) GPR is correctly reported as Water Efficiency GPR in CBR. Pierce County originally had Environmentally Innovative GPR for a planned LEED building structure, but it was dropped from the project. Ecology removed this EI GPR from CBR. It is no longer in the total, but it is part of another CBR field that is not editable. This appears to be a CBR glitch.
4	Were business cases posted to the state website, as required? (N/A if no GPR projects required business cases)	X			No GPR funding this year required a business cases.
	a. Were the posted business cases complete and in accordance with the GPR Attachment to the annual SRF Procedures Guideline?			X	See previous comment.
<b>1.11 Davis-Bacon Requirements</b>					
1	What is the State's process for ensuring that Davis-Bacon requirements, including the correct wage determinations, are included in bid documents?				Loan agreements require borrowers to fulfill and document all Davis-Bacon (D-B) requirements, including maintaining certified payroll and conducting interviews. These requirements are included in the Ecology Bid Insert required as part of the bidding process. During the preparation of bid documents, Ecology provides borrowers with EPA's D-B T&Cs. Ecology's policy is to have regional staff review all bid documents and check that the right wage determinations are used.
2	What is the State's process for collecting certifications of compliance with Davis-Bacon from all assistance recipients?				Borrowers are required to submit monthly progress reports that include a Davis-Bacon certification. While not required, Ecology sometimes spot checks D-B, such as weekly certified payroll, D-B wage postings at project site, etc. as part of their project inspections.

## Required Program Elements

Review Item and Questions to Answer	Yes	No	N/A	Onsite Discussion Summary
<b>1.12 Programmatic Risks</b>				
1 What in the State's view are the main programmatic risks facing the program, and what steps are being taken to avoid and/or mitigate them?				During the long-term planning session, Ecology indicated that the low demand experienced in recent years is not longer an issue. They speculated that economic optimism throughout much of the State of Washington might be contributing to more communities moving forward with SRF eligible projects. The other main factor is that the state legislature have cut project funding to the Public Works Board, resulting in the removal of a significant source of funding competition.
<b>1.13 SRF Administration</b>				
1 Did the State take the full 4% available for administrative expenses during the year under review?				Ecology took the allowable 4% for administrative expenses this year, but plans to rely a loan charge in the next few years. Once the loan charged on the outstanding balance of loans is enough to cover all of the administrative expenses, Ecology will add the 4% to the total funds available for loans.
a. If the State did not take the full 4%, does the IUP indicate that the State will reserve the authority to take the remaining balance in the future?	X			
b. If the State is banking administrative funds, how are they tracking the available dollars?			X	see previous comment.
2 Is the State using administrative funds for eligible expenses of administering the SRF program?				Ecology does not currently bank the administrative funds. They plan to revisit how to use or bank the 4% in a few years when the administrative charge on repayments is projected to cover Ecology's administrative expenses.
<b>1.14 Compliance with Civil Rights Requirements</b>				
1 Does the State provide initial and continuing notice that is does not discriminate on the basis of race, color, national origin, sex, age, or disability in its programs or activities, and does the notification identify the State's civil rights coordinator?				There is an annual notice that includes Executive Policy 1-10: Providing Equal Employment Opportunity and a Work Environment Free of Unlawful Discrimination and Executive Policy 10-01: Establishing Reasonable Accommodation for Persons with Disability– Executive Policy 1-12: Non-Discrimination. Ecology also send out an annual Whistleblower message so employee's can contact the WA St. Human Rights Commission to file a complaint if they believe they have been discriminated against. Sandi Stewart is the Human Resources Director and the designated contact for Ecology's complaints.


Annual Review Checklist

Required Program Elements

Review Item and Questions to Answer		Yes	No	N/A	Onsite Discussion Summary
2	Does the State have appropriate policies or procedures to provide access to its services for persons with limited English proficiency?	X			Yes, Ecology has a multi-lingual interpretation and translation team (MITT). MITT is committed to providing quality interpretation and translation service to assist the Department of Ecology to accomplish its mission.
3	Does the State have grievance procedures to assure the prompt and fair resolution of complaints when a violation of Title VI of the Civil Rights Act or Title 40 CFR Part 5 or 7 is alleged?	X			Yes, Ecology's Administrative Policy 9-01 Chapter 9: Grievances and Investigations. Procedure 9-01-01 and Form 010-86, Executive Policy 9-02
4	Does your organization have any other written public or internal policies or procedures regarding nondiscrimination in its programs or activities?				Yes, Article 2 Non-Discrimination in the Washington Federation of State Employees Collective Bargaining Agreement, <a href="http://www.ofm.wa.gov/labor/agreements/11-13/wfsegg.pdf">http://www.ofm.wa.gov/labor/agreements/11-13/wfsegg.pdf</a>
		X			All staff are required to take a Diversity training every 5 years and a Discrimination and Sexual Harassment Training every 5 years for employee's and every 3 years for managers and supervisors.

\* The SRF Q&A document clarifies that States have two years to enter into an assistance agreement for GPR projects identified in the Intended Use Plan. If a project has not signed a loan agreement by the end of the second fiscal year, the State must include an explanation in the Annual Report along with anticipated milestones, and must meet those milestones by the end of the third fiscal year.

## Required Financial Elements

Review Item and Questions to Answer	Yes	No	N/A	Onsite Discussion Summary
<b>2.1 Binding Commitment Requirements</b>				
1 Does the State track and document binding commitments to ensure that 120% of each grant payment is committed to projects within one year of the payment?	X			State obligates all funds available (T&E) within a year of receipt. BC commitment is thus met the day the grant is awarded since the grant has become such a small amount of the total funds available. Both BC and T&E requirements are documented in the IUP and Annual Report. Ecology predominately issues direct loans to CWSRF applicants, though occasionally if a loan agreement cannot be completed prior to the end of a fiscal year a formal Binding Commitment letter is sent to the applicant.
a. If the State is having difficulty meeting the binding commitment requirement, what is the plan to correct this?				N/A
2 Do the dates of binding commitments as documented in the project files reviewed match those reported in the Annual Report?	X			
3 Does the State track the average time lag between binding commitment and construction initiation? If so, what is the average time lag?				Ecology rarely issues binding commitments prior to obtaining signed loan agreements. Loan agreements are predominately for planning, design, OR construction, not many are for more than one category. Ecology doesn't track the amount of time between BC and construction initiation, though two years ago Ecology calculated the average lag time between signed loan agreements and cash disbursements since the inception of the program. Ecology determined approximately 28% of the loan amount disburses in the first year, 66% cumulatively in the second, and 81% by the end of the third year. All Ecology loans (projects) must be completed within 5 years of loan signing. A maximum one year extension is possible but only upon request/Ecology approval.
a. If this is a significant time lag, is it recurring? (If so, note steps the State is taking to correct the situation in the Onsite Discussion column)		X		
			X	Not a significant time lag.

## Required Financial Elements

Review Item and Questions to Answer	Yes	No	N/A	Onsite Discussion Summary
<b>2.2 Assistance Terms</b>				
1 What is the State's process for establishing assistance terms?				Ecology has a standing Financial Advisory Committee (FAC) made up of external stakeholders from around the State. The FAC is scheduled to meet 3 times a year and they provide recommendations to Ecology on interest rates & terms. The FAC attempts to balance environmental, financial, and hardship benefits while still meeting perpetuity requirements. FAC recommendations are taken to Ecology's internal Management Oversight Committee, who make the rate decisions. All interest rates and terms are clearly articulated in State rule and in each IUP. Based on the FAC's prior recommendations, Ecology currently provides standard CWSRF loans at 60% of the average monthly municipal bond interest rate calculated over a two month period. Communities are eligible for additional reduction in loan interest rates based on hardship criteria.
a. Are interest rates less than the market rate?				Ecology annually bases the interest rates on a percent of the average interest rate for tax-exempt municipal bonds (MB) for the period 30-60 days prior to the beginning of a new funding cycle. The interest rates for standard Revolving Fund loans in SFY2014 were: 1.1% for a five-year loan (30% of tax-exempt MB). 2.3% for a 20-year loan (60% of tax-exempt MB).
b. Do principal repayments start within one year of project completion and end within 20 years, for all projects without extended term financing agreements?	X			
c. Does the program use extended term financing to the extent it is allowable? (If so report the percentage of project funding used in the Onsite Discussion section.)	X			
2 What is the amount and type of additional subsidy provided, and is this consistent with the requirement for the year under review?			X	No extended term financing.
a. If the State is providing subsidy in the form of grant funds, do assistance agreements require compliance with EPA regulation 40 CFR Part 31?				During SFY2014, Ecology provided principle forgiveness in the amount of \$1,127,903 (approximately \$34,283 more than the minimum required by the FFY2013 grant)
	X			
			X	All subsidy provided via principal forgiveness





## Required Financial Elements

Review Item and Questions to Answer	Yes	No	N/A	Onsite Discussion Summary
3 How does the State periodically evaluate terms of assistance offered relative to the supply and demand for funds and the Fund's long-term financial health?				<p>Ecology has a standing Financial Advisory Committee (FAC) made up of external stakeholders from around the State. The FAC is scheduled to meet three times a year and they provide recommendations to Ecology on interest rates and terms. The FAC attempts to balance environmental, financial, and hardship benefits while still meeting perpetuity requirements. Ecology prepares presentations and runs financial models for the FAC meetings when rates and terms are scheduled to be discussed. Based on FAC recommendations, cash flow model projections, and acceleration plan, Ecology's senior management (Management Oversight Team) ultimately makes rate decisions. Interest rates are clearly articulated in State rule and IUPs and are updated on an as needed basis.</p>
<b>2.3 Use of Fees</b>				
1 Does the State assess fees on assistance? If so, note the fee rate charged and on what basis (e.g., percentage of closing amount, principal outstanding, principal repaid, etc.) in the Onsite Discussion column	X			<p>Fee (user charge) of 1% is assessed on outstanding principal and collected throughout duration of loan repayment.</p>
a. Describe how fee income is used by the program. For each use, indicate whether the fee income is program or non-program income.				<p>Fee income has not yet been used by program. It is statutorily only allowed to be used to administer the program, provide technical assistance, and information and data system costs associated with loan tracking and fund management. By law, once the fee account (administrative charge) is large enough to run the program, the full capitalization grant must be used to fund loans, the administrative charge rate is to be decreased, and any excess funds must be permanently transferred into the Fund (CWSRF Fund) to loan for projects.</p>

Annual Review Checklist

Required Financial Elements

Review Item and Questions to Answer	Yes	No	N/A	Onsite Discussion Summary
b. How does the State evaluate the use of fees relative to loan terms to set appropriate total charges to assistance recipients and assess long-term funding needs for program operation?				No EPA need for Ecology to evaluate the use of fees relative to loan terms since they are statutorily only allowed to be used to administer the program and by law, once the fee account (administrative charge) is large enough to run the program and any excess funds/fees collected must be permanently transferred into the Fund (CWSRF Fund) to loan for projects. Statute requires Ecology to evaluate administrative charge every two years (SFY17 will be first year) to determine appropriateness of percentage/revenue.
c. What are the State's procedures for accounting and reporting fee use?				A separate fee account (564) was set up outside the CWSRF (727) and fees are directly deposited into this account. This is the first year that any fees have been collected and the amount was reported in the Annual Report. No usage has yet occurred.
<b>2.4 Assessment of Financial Capability and Loan Security</b>				
1 What are the State's procedures for assessing the financial capability of assistance recipients?				A Financial capability Assessment Checklist must be submitted by all applicants. Applicants provide: "Financial data for the last 3 years; Statute/Code/Resolution/Meeting Minutes/etc. establishing fees or other means for paying for the project; Audit reports for the last 3 years" as well as operating ratio trends, operating fund carry-over, and existing capital debt. Ecology independently calculates the ratios as well, though only for those applicants being offered funding. Based on the financial capability assessment, recommendations may be made and put into the loan agreement to assure financial stability/ability to repay.
a. Do Project File Reviews indicate that these policies and procedures are being followed?				X

Annual Review Checklist

Required Financial Elements

Review Item and Questions to Answer	Yes	No	N/A	Onsite Discussion Summary
2 How does the State ensure that assistance recipients have a dedicated source of revenue for repayment or, for privately-owned systems, adequate security to assure repayment?				<p>For non-hardship projects funded under the 212 authority Ecology assumes a borrower's user rates will be sufficient to repay the loan though, for security, they add provisions to the loan agreement including a state-aid intercept clause and the requirement for the borrower to establish and maintain a reserve account. The borrower has five years from the date when the project goes into repayment to ensure that the reserve account has been sufficiently funded to provide six months of payments based on the amortization schedule. For non-hardship projects funded under the 319 or 320 authorities, a borrower provides Ecology with information as to how they intend to repay the loan. Ecology adds the same security provisions related to state-aid intercept &amp; a reserve account to these loans. Regardless of which authority they are funded under, Ecology determines an applicant's ability to repay for all hardship communities. Ecology lowers interest rates and provides principal forgiveness and/or State Centennial grant funds to ensure the applicant's ability to repay the loan. The same, standard security provisions related to State-aid intercept and reserve accounts are added to hardship loans.</p>
3 How does the State ensure that assistance recipients have access to additional funding sources, if necessary, to ensure project completion?				<p>Ecology does not require, nor necessarily provide, sufficient resources to ensure project completion. Historically there have been sufficient resources in the CWSRF to provide increases to existing loans when necessary however that is not guaranteed by the program.</p>

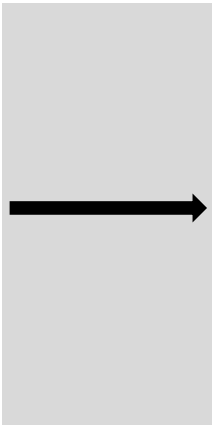
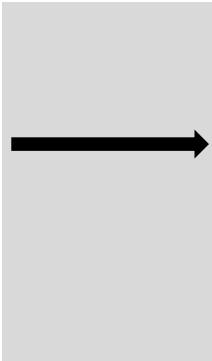
Annual Review Checklist

Required Financial Elements

Review Item and Questions to Answer	Yes	No	N/A	Onsite Discussion Summary
<b>2.5 Cash Draws</b>				
1 Describe the State's disbursement process and the reviews/internal controls utilized to ensure that disbursements adhere to the Federal cash draw rules.				<p>Borrower sends Ecology's Financial Manager (FM) forms A-19-1A (full loan amount, amount rcvd to date, and amount currently being requested), form B2 (running budget summary for projects with cash expenditures only), C2 (voucher support for projects with cash expenditures only - line items summarizing each cost incurred) and all invoices (back-up documentation) associated with the disbursement request. Ecology has a risk based approach for invoice review. For projects designated as "Low Risk" Ecology's FM reviews all forms &amp; invoices, concurs with all costs, checks items for eligibility and against the rules of cash draw, etc. FM can request support from the regional PO and/or engineer but it's not required. Once the FM concurs with the amount of the disbursement request, the concurrence is added to form A-19-1A and sent to the Fiscal Office to process. For projects designated as "High Risk," the process is identical to "low risk" projects but BOTH the FM AND the Regional PO/engineer must go through each line of every invoice and sign off on the approval prior to sending up to the Fiscal Office for payment. In addition to regional folks reviewing all parts of the borrower's payment request for eligibility, they also confirm that the amount requested to date is consistent with project completion based on a site visit. Once the Fiscal Office receives the A-19-1A form with the FM initials (or FM and regional PO in case of projects deemed high risk) then the Fiscal staff input information into the State systems to process payment from the correct accounts and with appropriate funding codes. A second Fiscal staff (usually team leader) reviews the records input into the State system and if s/he concurs then the batch is processed for payment.</p>
2 Have any improper payments been discovered by the State? (If so , note corrective actions that have been taken in the Onsite Discussion column)				<p>See PER for full details. \$87,637 incorrectly deposited into General Fund (001). The amount was transferred into CWSRF Fund (727) once the State discovered the error ten months later. Underpayments were made to Yakima for disbursements #2 &amp; #3. In March 2015 a single corrective payment was made to cover both previous underpayments.</p>
a. Were all improper payments adequately resolved?	X			<p>See PER for full details. It was unknown at the time of the Yakima corrective payment that the original authorized amount was incorrect so that correction of an underpayment actually led to a current overpayment.</p>
		X		

Annual Review Checklist

Required Financial Elements

Review Item and Questions to Answer	Yes	No	N/A	Onsite Discussion Summary
b. If improper payments occurred as a result of internal control deficiencies, how will the State review and/or modify its internal controls to decrease the potential for erroneous payments to occur in the future?				Sufficient internal controls were in place. However, the Ecology staff member who made all the underpayments to Yakima was let go/dismissed. The team leader who normally checks the disbursement amounts and all paperwork was on vacation and her back-up missed the former Ecology staff member's mistakes. Ecology is putting new procedures in place for checking disbursements when multiple payments/columns are involved (all ASR & GPR projects). To correct for the CWSRF grant funds being deposited into the general fund instead of the CWSRF and not discovered for ten months, the Ecology cashing unit now reconciles deposits monthly. That way, any incorrect deposits will be found and corrected more quickly.
<b>2.6 State Match</b>				
1 What is the State's source of state match? Is this source sufficient to provide the 20% match now and into the foreseeable future?				Ecology's match is appropriated every biennium by the State Legislature and is usually transferred from the Public Works Assistance Account (PWAA) directly to the CWSRF account. The PWAA receives funding from a combination of taxes and transfers. Unless the Legislature suddenly decides not to appropriate funds, this is a sufficient source of match for the foreseeable future. Appropriation this biennium generated via taxable bonds in different account and had to be transferred at time of Federal draw. Correction currently with legislature to return to PWAA funding for past year's disbursements as well as this year's.
2 If bonds are issued for state match, and the SRF is used to retire these bonds, do the bond documents clearly state what funds are being used for debt service and security?			X	Ecology does not issue state match bonds
a. Has the State's current match bond structure been approved by Headquarters? (Provide details in the Onsite Discussion column)			X	
3 Do State accounting records indicate that match funds were deposited at or before applicable federal cash draws?	X			Same day
<b>2.7 Transaction Testing for Improper Payments</b>				
1 Are State accounting records of federal funds received consistent with federal records of federal funds disbursed?	X			One administrative draw shows the Federal funds went to an incorrect (non-CWSRF) account. Mistake identified 10 months later and corrected.

## Required Financial Elements

Review Item and Questions to Answer	Yes	No	N/A	Onsite Discussion Summary
2 Does the State track the average length of time between request and disbursement? If so, what is the average time lag?				EPA's transaction testing shows that, <b>typically</b> , Ecology disburses funds to a recipient within 30 days of receiving a full request package; however Ecology often receives disbursement requests that lack all necessary documentation. In those instances the borrowers are notified that funds will not be released until further documentation is provided.
3 What proportionality ratio is the State using for cash draws, and how did they establish that ratio? Is the current cash draw proportionality ratio allowing them to use an efficient cash management approach?		X		83.33% Federal/16.67% State Match for every cash draw. This is an efficient cash management approach.
<b>2.8 Timely and Expeditious Use of Funds</b>				
1 Does a review of the IUP and Annual Report confirm that the State is using SRF funds in a timely and expeditious manner, i.e. within one year of receipt?				All funds are obligated within a year of receipt. Loan agreements are predominately for planning, design, OR construction, not many are for more than one category. Funds are disbursed expeditiously. Ecology has determined that approximately 28% of a loan amount is disbursed in the first year, 66% cumulatively in the second, and 81% of the loan is disbursed by the end of the third year. All Ecology loans (projects) must be completed within 5 years of loan signing. A maximum one year extension is possible but only upon request/Ecology approval.
a. What is the State's balance of uncommitted funds?		X		There are no uncommitted funds; all funds available are obligated into new loans or reserved for administrative use with a year of receipt.
b. What is the State's balance of unliquidated funds?				As of 5/11/15 there is \$2,597,979 remaining in the FFY2012 grant, \$23,151,911 in the FFY2013 grant, and \$24,383,000 in the FFY2014 grant.
c. What is the trend in uncommitted and unliquidated funds over the past 2-3 years?				Ecology has increased its rate of obligation and liquidation of funds over the past few years. Two years ago Ecology began actively accelerating the pace of obligations by obligating funds prior to actual receipt.
2 If the State needs to improve its use of funds to ensure timely and expeditious use, what is the State's plan to address the issue?				All funds currently obligated and disbursed in a timely & expeditious manner. An additional \$14M of CWSRF disbursements were intentionally not drawn from the Federal grants during FFY14 so that those disbursements could be used as match for other EPA grants (mostly Puget Sound).

Annual Review Checklist

Required Financial Elements

Review Item and Questions to Answer	Yes	No	N/A	Onsite Discussion Summary
a. If the state was required to develop a plan demonstrating timely and expeditious use of funds, is progress being made on meeting this plan?			X	No plan required.
<b>2.9 Financial Management</b>				
1 What are the State's short and long-term financial goals, and how is the State's financial management designed to achieve these goals?				<p>Ecology has been working to accelerate the program. The plan is to use advanced cash flow modeling projections to increase the amount signed into loans each year. In SFY2014 this plan allowed Ecology to sign \$40M more in loans than the "old" system had allowed. For SFY2015 Ecology accelerated a bit further out and was able to sign \$110M more in loans than they would have been able to under the "old" system. The ultimate long term goal is to minimize the Fund balance at Treasury to \$30-\$40M and be able to sign \$100M in loans each year absent cap grants.</p> <p>Ecology holds meetings three times a year with a standing stakeholder council (Financial Advisory Committee) which provides recommendations to all aspect of the program including interest rates, hardship criteria, perpetuity definitions, priority setting systems, etc. Twice a year Ecology's CFO, Assistant/Deputy Administrator for the Agency, and other senior managers are briefed on the CWSRF, including plans for the future.</p>
a. Are NIMS financial indicators for the State improving over time? If not, which indicators are declining?			X	<p>Return on Federal Investment is declining but that is to be expected with required subsidy amounts; Ecology used to fund close to the maximum amount allowed. In SFY2012 and SFY2013, there was a slight decrease in executed loans as a percentage of funds available. This was due to a dramatic interest rate cut and acceleration of and funding by the prime competing funder, the Public Works Trust Board (PWTB). The State Legislature saw this, slashed the PWTB funding and required them to charge the same rates as the SRFs. There was a noticeable improvement in SFY2014. The percentage of funds disbursed relative to signed loan agreements has predictably increased/decreased relatively to the percentage of executed loans.</p>

Annual Review Checklist

Required Financial Elements

Review Item and Questions to Answer	Yes	No	N/A	Onsite Discussion Summary
<p>2 What is the State's long-term financial plan to direct the program?</p>				<p>Current long term plan/models assume Federal capitalization grants will decline 25% a year for the next four years and then be eliminated, 1% administrative fee is charged to communities and the program is to be run solely from the fee account by 2017, and the program continues to accelerate the pace of obligations through SFY2016 then pull back to even out funding cycle. The plan is to be able to provide \$100M in loans every year absent capitalization grants and to decrease the CWSRF account at the State Dept. of Treasury to only \$30-\$40M at any given time. In January 2014, Ecology began collecting a 1% administrative charge (fee) from borrowers going into repayment. Once they have collected the charge for two years, Ecology will reevaluate the need to charge a full 1%. Ecology's goal is to reduced the fee percentage so as to produce sufficient resources to administer the program but not take away too much interest from the program.</p>
<p>a. Was financial modeling used to develop the plan? How was modeling conducted?</p>	<p>X</p>			<p>Yes. Ecology has a Loan Tracking System (LTS) that has all loans, interest rates, etc. From this system they have been able to run models showing various impacts of raising/lowering interest rates, charging fees, etc. The system has been used to make portfolio projections. Additionally, Ecology has a cash flow modeling excel spreadsheet that projects cash in/out for 25 years. On a quarterly basis the projections are updated with the actuals to manage the ongoing acceleration of the program and guide the long-term health of the Fund. The goal is to have funds disbursed within 3-6 months of receipt while maintain a \$30-\$40M buffer in the State Dept. of Treasury CWSRF account.</p>






Annual Review Checklist

Required Financial Elements

Review Item and Questions to Answer	Yes	No	N/A	Onsite Discussion Summary
b. How often is the plan reviewed and updated?				Ecology's long term plan isn't updated often, though it's reviewed at least once (or more) a year by the FAC. The cash projection spreadsheet is updated quarterly and is presented, along with any proposed plan updates, to legislative staff, OFM, and other senior officials twice a year (every spring and fall).
c. Does planning address types of assistance and terms, use of leveraging, and transfers or cross-collateralization between programs?		X		The modeling inputs that can be altered are amount of assistance provided and interest rates. Leveraging, transfers and cross-collateralization are not currently considered viable options; current demand could not support leveraging though other State agencies have suggested it and EPA has been involved when this idea has been discussed. The DWSRF is run by Depts. of Health (DOH) and Commerce. To date, DOH has not been interested in transferring funds though it's been discussed.

Annual Review Checklist

Required Financial Elements

Review Item and Questions to Answer	Yes	No	N/A	Onsite Discussion Summary
3 Describe the State's leveraging structure and activities, including ratio, frequency, amount, use of funds, impact on interest rates, etc. <i>(N/A if the state does not leverage)</i>				N/A
a. Is leveraging activity consistent with the leveraging activities described in the IUP, Annual Report and bond documents?			X	N/A
b. Are net bond proceeds, interest earnings, and repayments being deposited into the fund?			X	N/A
4 Does the State have any issues related to loan restructuring, the potential for defaults, and the timeliness of loan repayments? How are these issues being handled?				Mason County and Concrete indicated that they're having difficulty in paying their loans; however, as of yet they have not actually missed any payments. Vantage had missed two payments but they are back on track now. Whenever communities have difficulty, Ecology works to see what can be done (interest only payments until system comes on line or new users are added, raising rates, etc.). As a proactive measure, Ecology has improved financial capability assessment so they can proactively prevent issues related to communities being unable to repay loans.
5 What rate of return is the SRF earning on invested funds?	X			0.170%
<b>2.10 Compliance with Audit Requirements</b>				
1 Are annual audits being conducted by an independent auditor?				
a. Who conducted the most recent audit? Note date of most recent audit in Onsite Discussion column.	X			Additionally, State Auditors automatically deem any program in the State which expends \$30M or more in Federal and State Match funds as a major program for the Statewide Single Audit. The CWSRF was deemed a major program for SFY2014. Washington State Auditor's Office issued SFY2013 Financial Statements Audit Report on June 2, 2014. CliftonLarsonAllen hired for SFY2014 audit but EPA granted extension. Audit not expected until July 29, 2015.
b. Did the program receive an unqualified opinion? If a qualified opinion was given, note the reason(s) in the Onsite Discussion column	X			

Annual Review Checklist

Required Financial Elements

Review Item and Questions to Answer	Yes	No	N/A	Onsite Discussion Summary
c. Were there any findings? If so, describe the findings and resolutions in the Onsite Discussion section				<p><b>Audit:</b> Key employee responsible for compiling the financial statements left the Department. The remaining accounting staff did not have adequate technical knowledge to prepare the statement in conformity with GAAP. The Department did not have an employee, independent of the preparation process, with the experience and technical knowledge to review the financial statement for accuracy and completeness.</p> <p><b>Ecology Response:</b> Department of Ecology recognizes the importance of its Senior Financial Advisor position, including the assigned duty of the preparation of the Water Pollution Control Revolving Account financial statements. Recruiting for a qualified replacement for this position began immediately upon the resignation of the incumbent. We have completed the screening process and have selected a qualified replacement. The new Senior Financial Advisor will fill the position on or before July 1, 2014.</p>
d. Are the financial statements in conformance with GAAP?	X			
				<p><b>Audit:</b> The Department did not implement Governmental Accounting Standard 63, relating to the presentation of net position when preparing its financial statements as required by the Governmental Accounting Standards Board. The liabilities of the Statement of Net Position were incorrectly totaled, resulting in the liabilities being understated in the amount of \$7.3 million. <b>All the errors were eventually corrected.</b></p>
2 If there were recommendations in the audit report and/or recommendations in the "Management Discussion & Analysis" letter, has the State implemented them?	X			Judy Cummins was hired to be the Senior Financial Advisor and she negotiated a July 15, 2014 start date since she had to move from Juneau, Alaska.
	X			

Annual Review Checklist

Required Financial Elements

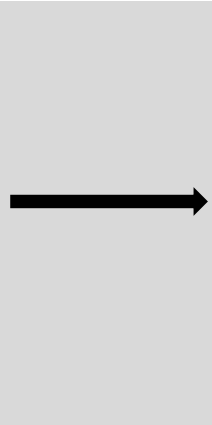
Review Item and Questions to Answer	Yes	No	N/A	Onsite Discussion Summary
3 Did the most recent audit confirm compliance with State laws and procedures?				<p><b>Audit:</b> As part of obtaining reasonable assurance about whether the SRF's financial statements are free from material misstatement, we performed tests of the SRF's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such as an opinion.</p> <p><b>Single Audit:</b> CWSRF was deemed a major program in SFY2014 and there were findings or recommendations, including with State laws &amp; procedures.</p>
a. Did the audit include any negative comments or issues regarding the State's internal control structure?	X			See 2.10(1)(c) above
b. Did the audit identify any erroneous payments/cash draws/disbursements?				
c. Has the State taken action to recover the improperly paid funds?			X	
4 Did the most recent audit include any repeat findings (from previous audits)?				
a. Have audit findings discussed during the previous Annual Review been resolved?				
5 Did the most recent audit find that state cash management and investment practices consistent with State law, policies, and any applicable bond requirements?				
			X	There were no findings in the SFY 2012 audit.
			X	There were no findings in the SFY 2012 audit.
	X			<p>All monies of the CWSRF are deposited with the State Treasurer's Office and are considered cash. According to State law, the Treasurer is responsible for maintaining the cash balances and investing excess cash of the CWSRF. Consequently, Ecology staff that provide management of the CWSRF do not have control over the investment of the excess cash. The statement of cash flows considers all funds deposited with the Treasurer to be cash or cash equivalents, regardless of actual maturities of the underlying investments.</p>



Annual Review Checklist

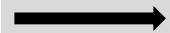

Required Financial Elements

Review Item and Questions to Answer	Yes	No	N/A	Onsite Discussion Summary
<p>7 How does the State notify assistance recipients of the requirement to provide a single audit if they expend more than \$500,000 in Federal funds?</p> <p>a. What is the State's process for reviewing assistance recipients' audits and following up with recipients on resolving issues and/or findings?</p>				<p>Ecology sends a standard letter to every entity which has been disbursed funds (either grant or loan) stating what the SAA requirements are (i.e. \$500,000 threshold, submitting single audit, etc.). Attached to the general letter is a report specific to the grantee/borrower whereby Ecology has listed under each CFDA number the dates and amounts of each disbursement covered by that CFDA number. This report is based on a calendar year but because it has the exact dates and amounts of each Federal disbursement under the respective CFDA number, each grantee/borrower is able to ascertain the amount of Federal assistance for the fiscal year it uses.</p> <hr/> <p>Each entity, which received less than \$500K in Federal money directly from Ecology is to complete a postcard stating what the cumulative total of Federal funds received was for the Fiscal year. For those which exceed \$500K, Ecology follows same process as those to whom Ecology directly sends more than \$500K to. State Auditors require that Ecology confirm that each entity Ecology sent more than \$500K in Federal funds (this includes NPS money, NEP money, Puget Sound money, CWSRF, etc.) actually complete a single audit. Ecology reviews each of the single audits on the State Auditor's website. If the single audit isn't posted there then the Financial Manager contacts the community and has a copy sent directly to Ecology. If there are no findings in the single audit then the process is complete. If there are findings then the Financial Manager must follow up with the entity to ensure all issues/findings are resolved.</p>

## Required Financial Elements

Review Item and Questions to Answer	Yes	No	N/A	Onsite Discussion Summary
<b>2.11 Financial Risks</b> What in the State's view are the main financial risks facing the program, and what steps are being taken to avoid and/or mitigate them?				 <p>Ecology's only financial concern right now is that some smaller communities might be getting "over engineered systems" and taking loans for overly expensive and elaborate systems that exceed the actual community needs and ability to maintain. A few borrowers have had trouble making payments though so far it's always worked out. Ecology improved financial assessments so they would know when a community couldn't afford the loan so they could act early when it would be possible to prevent an issue from occurring. They are also looking to use some of the WRRDA amendments to ensure that decentralized systems are used when they are more appropriate for smaller/more rural communities.</p>

EPA's Clean Water Infrastructure Sustainability Policy: Discussion Questions				
Review Item and Question to Answer	Yes	No	N/A	Onsite Discussion Summary
<b>4.1 Sustainability</b>				
1 How does the State encourage the use of asset management programs? Does the State's Project Priority List (PPL) include projects that emerged as a result of an asset management program?				<p>* WA has not stressed the need for asset management programs to-date. However, due to the 2014 amendments to the CWA, WA has begun implementing a requirement for a Fiscal Sustainability Plan (FSP) for all wastewater and stormwater facility construction projects. The FSP is essentially an asset management plan plus water and energy conservation efforts.</p> <p>* WA requires loan recipients to collect adequate revenues to "operate and maintain the utility, <u>establish a reserve to pay for replacement</u>, to establish the required loan reserve account, and to repay the loan." The second item is the practical end point of an asset management program.</p> <p>* WA has spoken with the Rural Community Assistance Corporation (RCAC) about expanding our contract with them to provide one-on-one assistance and training/tools to small communities for implementing the FSP requirements.</p> <p>* WA staff are becoming familiarized with the Check Up Program for Small Systems (CUPSS) program, including participating in basic CUPSS training provided by EPA in May 2015.</p> <p>* The SFY14 PPL does not specifically call out projects that emerged as a result of an asset management program. However, funding was offered for several City of Spokane combined sewer overflow reduction projects (applications: FP14069, FP14068, FP14063, FP14067, FP14066, and FP14065). These projects resulted from an integrated stormwater plan that functioned like an asset management plan. In addition, the funding offered to the City of Edmonds (FP14033) and the funding offered to the City of Sumner (FP14040) also were almost certainly the result of asset management.</p>
2 How does the State encourage planning processes by potential SRF recipients that:				
a. include steps to consider other relevant community sustainability priorities from other sectors, such as transportation and housing?				<p>WA's SERP, which applies to all treatment works projects funding through the CWSRF, requires completion of the State Environmental Policy Act (SEPA) requirements. Among the SEPA requirements is an analysis of the project's potential impact on transportation and housing and other relevant community sustainability priorities.</p>
b. evaluate a range of alternatives, including green and or decentralized alternatives, based on full life-cycle costs?				<p>Washington has always required infrastructure projects to consider a full range of alternatives and demonstrate that the preferred alternative is cost effective based on life cycle costs. If chosen, green and/or decentralized alternatives may be eligible for subsidy in the form of forgivable principal loans for up to 25% of that portion of the project costs. Due to the 2014 CWA amendments, beginning with SFY17 projects, Ecology will begin requiring Cost and Effectiveness Analyses for all CWSRF-funded projects, regardless of project type.</p>
c. ensure that potential recipients have a financial system in place, including appropriate rates, to ensure that future projects will be funded, operated, maintained and replaced over time, with appropriate considerations for low income households?				<p>* WA participates in the Infrastructure Assistance Coordinating Council (IACC) to, among other things, work with staff from multiple agencies to provide training to communities (particularly small communities) on issues such as establishing appropriate rates to ensure proper operations, maintenance, and replacement of system assets.</p> <p>* WA also has contracted with RCAC to provide technical assistance to specific small communities identified by our regions to conduct rate studies and income surveys. We may expand the contract to include preparation and training/tools for preparing FSPs. WA includes a loan condition requiring recipients to "operate and maintain the utility, establish a reserve to pay for replacement, to establish the required loan reserve account, and to repay the loan."</p>
3 Does the State's project pipeline include projects that utilize green infrastructure or decentralized approaches as an integral part of the treatment process? Describe any activities that the State uses to encourage these types of projects.				<p>In SFY14, WA offered funding for 6 Green Project Reserve (GPR) projects for a total amount of ~\$9.2 million. The projects were offered ~\$1.4 million in subsidy in the form of forgivable principal loans for the GPR elements. The SFY14 IUP can be found at <a href="https://fortress.wa.gov/ecy/publications/documents/1310026.pdf">https://fortress.wa.gov/ecy/publications/documents/1310026.pdf</a>; in particular, see Table 10. The GPR projects include both green infrastructure and decentralized approaches. The onsite repair and replacement local loan program has been particularly effective.</p>
4 Does the project pipeline include projects that maintain or create additional green space? Examples could include riparian buffer zones or conservation easements. Describe any activities the State uses to encourage these types of projects.				<p>* For the past 2 years WA has provided an incentive to some recipients of funding for nonpoint source pollution reduction activities projects by providing 100% grant (through the Section 319 or State Centennial Clean Water Programs) without a match requirement for implementing the 2014 increased riparian buffer requirements instituted by EPA, NOAA, and NMFS.</p> <p>* In addition the City of Bellingham's Squalicum Creek project (FP14060) was offered primarily loan funding, including \$527,593 in forgivable principal loan for its GPR-eligible activities. The project includes rerouting the creek to increase effective shade and improve salmon habitat.</p>

EPA's Clean Water Infrastructure Sustainability Policy: Discussion Questions				
Review Item and Question to Answer	Yes	No	N/A	Onsite Discussion Summary
5 Does the project pipeline include projects that make use of technologies and practices to reduce energy and/or water consumption, and use energy in a more efficient way, and/or produce/utilize renewable energy? Describe any activities the State uses to encourage these types of projects.				Projects that make use of technologies and practices to reduce energy and/or water consumption, and use energy in a more efficient way, and/or produce/utilize renewable energy may be eligible for subsidy in the form of forgivable principal loans for up to 25% of that portion of the project costs. WA funds such projects. See the response to 4.1.3, above. Beginning this year, all CWSRF-funded projects will be required to consider and implement water and energy efficiency measures where appropriate through the new FSP and Cost and Effectiveness Analysis requirements. In addition, WA requires all recipients of CWSFR and the State Centennial Clean Water Program funding for treatment works projects to undertake an "Investment Grade Efficiency Audit" as part of the funding agreement terms.
<b>4.2 Resiliency to Extreme Events and Climate Change*</b>				
1 Is there a state climate change or adaptation plan?	X			WA has a climate change and adaptation plan entitled, " <b>Preparing for a Changing Climate - Washington State's Integrated Climate Response Strategy</b> " (Climate Change Plan). The Climate Change Plan can be found at <a href="https://fortress.wa.gov/ecy/publications/documents/1201004.pdf">https://fortress.wa.gov/ecy/publications/documents/1201004.pdf</a> .
a. If so, does it include a role for water infrastructure or the SRF's?	X			Yes. See Chapter 10 of the Climate Change Report.
2 Does the SRF program provide information about eligible costs related to developing or implementing an adaptation plan in the IUP or other program information?	X			WA's Funding Guidelines includes an appendix describing the GPR criteria, including the eligibility for "Planning activities by a POTW to prepare for adaptation to the long-term effects of climate change and/or extreme weather". The Funding Guidelines can be found at <a href="https://fortress.wa.gov/ecy/publications/publications/1410045.pdf">https://fortress.wa.gov/ecy/publications/publications/1410045.pdf</a> ; see Appendix J, in particular, 4.2-4.
3 Does the SRF program provide incentives to encourage facilities to incorporate potential climate change impacts or strategies for building resilience to extreme events in new or revised facilities plans? Extreme events may include Intense precipitation and flood, increasing temperatures and drought, or sea level rise, increasing intensity of coastal storms, and storm surge.	X			Preparing for climate change impacts are eligible for GPR funding, and WA may provide subsidy in the form of forgivable principal loan for up to 25% of the GPR elements of projects.
a. What incentives does the SRF program provide?				See previous comment.
4 Does the state have plans in place for rebuilding water (and other) infrastructure after damage from an extreme event, in ways that decrease vulnerability and increase resilience to future extremes?	X			<p>* Strategy B-4 of the Climate Change Plan cited above; specifically, the strategy states, "Integrate climate adaptation considerations for species and ecosystems into natural resource and conservation planning, land use and infrastructure planning, and resource allocation and public investment initiatives."</p> <p>* Strategy C-2 of the Climate Change Plan cited above; specifically, the strategy states, "Avoid development in highly vulnerable areas and promote sustainable development in appropriate, less vulnerable areas."</p> <p>* Strategy G-3 of the Climate Change Plan cited above; specifically, the strategy states, "Reduce or avoid climate risks by considering climate in the planning, funding, design, and construction of infrastructure projects and by promoting improved design and construction standards in areas vulnerable to climate risks."</p>
5 Are the state SRF program staff aware of sources of information to help you understand and plan for future resiliency, e.g., EPA's Climate Ready Water Utilities tools and information? (available at <a href="http://water.epa.gov/scitech/climatechange/">http://water.epa.gov/scitech/climatechange/</a> )	X			



Project File Review Checklist  
for the Clean Water State Revolving Funds (SRFs)

State: Washington

Reviewer: David Carcia

Project or Borrower: Pierce County: Chambers Creek (Loans #L1400020)

Date: 5/13/15

**Required Program Elements - Pierce County, Chambers Creek (Loans #1400020)**

Review Item and Question to Answer		Yes	No	N/A	Comments
<b>1.1 Funding Eligibility</b>					
1	File contains an application submitted by the recipient	X			Application FP14022 for loan L1400020 was signed 11/01/12 by Stefan Kamieniecki, Senior Planner, Pierce County.
2	The assistance recipient and project is eligible for CWSRF assistance	X			File indicates this project is a wastewater treatment facility upgrade and expansion, which are eligible under Section 212 of the Clean Water Act.
3	All technical documents required by the state for the type of project have been submitted (preliminary engineering reports, plans & specs, etc.) and reviewed	X			Ecology agreed to allow have Pierce County to review and approve Plans and Specifications, in accordance RCW 90.48.110(2). This agreement is documented through an MOU between the County and Ecology, signed 8/10/12 by Robert W Bergquist, Ecology Southwest Region Manager, Water Quality Program and signed 9/6/12 by Brian Ziegler, P.E., Director of Depart. of Public Works & Utilities. Ecology SRF coordinator indicated that the first of a series of report from Pierce County regarding their exercise of this authority is due in May 2015.
<b>1.2 Green Project Reserve (GPR)</b>					
1	Project file indicates that any portion of the project designated to receive GPR funding is either:				
	a. Categorically qualified for the GPR	X			An estimated \$12.9 million was intended to fund reclaimed water project elements, which are categorically eligible GPR for water efficiency 2.2-6. The project as originally proposed also included a \$3.2 million for LEED building, but that aspect of the project was not included in the design package #3, which was the only one funded by WA SRF. Once Ecology also confirmed that all 1.3MGD of the new facilities reclaimed water is proposed to be dedicated to in-plant uses and for irrigation on chambers creek properties (e.g. adjacent parks), they were able to credit \$9.8 million dollars of the reclaimed water system's costs as GPR. Ecology updated CBR to reflect this updated GPR assessment. About \$420,000 more was also categorically GPR eligible, but is not being credited as such. This is because the work is spread across all four design packages (three of which are not funded by WA SRF), making it difficult to track the expenditures attributed to the reclaimed water distribution system.
	b. Supported as GPR eligible by a State-approved business case			X	This project was Categorically eligible for GPR
2	Business case has been posted on State website by the end of the quarter in which the project was funded			X	This project was Categorically eligible for GPR

Project File Review Checklist  
for the Clean Water State Revolving Funds (SRFs)

Required Program Elements - Pierce County, Chambers Creek (Loans #1400020)				
Review Item and Question to Answer	Yes	No	N/A	Comments
<b>1.3 Socio-Economic and Other Cross-Cutters</b>				
1 Project file contains documentation that the assistance recipient agrees to comply with the following <i>[required for projects in an amount equal to the capitalization grant]</i> :				
a. Equal Employment Opportunity requirements (Executive Order 11246)	X			Pierce County General Contractor/Construction Manager (GCCM) RFQPA No. 625, 5/18, 2011, p.22.
b. Suspension and Debarment prohibitions (Executive Order 12549)	X			Condition of the loan agreement (L1400020), Attachment 4, p.2.
c. Disadvantaged Business Enterprise requirements	X			Condition of the loan agreement (L1400020), Attachment 4, p.5.
<b>1.4 State Environmental Review</b>				
1 Project File includes the following, as appropriate <i>[Note: may be included in the Preliminary Engineering Report or Facilities Plan]</i> :				
a. Discussion of required mitigation measures	X			Chambers Creek Regional Wastewater Treatment Plant Facilities Plan Final EIS, November 2009
b. Analysis of other sites and/or other projects considered			X	This Pierce County, Chambers Creek Regional Wastewater Treatment Plant project involves the design and construction of upgrades and expansion of existing facilities.
2 The project is subject to the State Environmental Review Process (SERP) <i>[N/A for nonpoint source projects]</i> :	X			This Pierce County project is a point source treatment works project.
a. For projects subject to the SERP, file includes an Environmental Information Document (EID) from the assistance recipient <i>[N/A for projects receiving a Categorical Exclusion]</i> :	X			Chambers Creek Regional Wastewater Treatment Plant Facilities Plan Final EIS, November 2009
3 File contains the state's decision memo (with environmental assessment, as applicable) documenting <b>one</b> of the following:				
a. Decision to classify the project as a Categorical Exclusion (CE or CatEx)			X	See Comment 1.4.3(c) below
b. Decision to grant a Finding of No Significant Impact (FNSI or FONSI)			X	See Comment 1.4.3(c) below
c. Decision to require an Environmental Impact Statement (EIS)	X			Scope of Environmental Impact Statement (EIS) issued 12/29/08; comments received through 2/9/09.
4 File includes Environmental Impact Statement and accompanying Record of Decision <i>[N/A for projects receiving a Categorical Exclusion or Finding of No Significant Impact]</i>	X			Chambers Creek Regional Wastewater Treatment Plant Facilities Plan Final EIS, November 30, 2009, which under WA SEPA serves as the final decision such that the state agencies (i.e. WA SRF) may take action on (i.e. fund) the proposals in the final EIS seven days after the final EIS has been issued

Project File Review Checklist  
for the Clean Water State Revolving Funds (SRFs)

**Required Program Elements - Pierce County, Chambers Creek (Loans #1400020)**

Review Item and Question to Answer		Yes	No	N/A	Comments
5	File includes evidence of public notification, as required:				Ecology's borrowers comply with SERP by following the Washington State's environmental review law known by the acronym SEPA contains public notice and public comment requirements. Although the Pierce County project file documents that SEPA DS/EIS itself went through the proper public notice, public comment period, and a public hearing process, it did not appear to contain public notice documentation for Ecology's adoption of this November DS/EIS. Ecology considers the public notice requirement already met by SEPA. However, 40 CFR 3140 requires to publically notice its determination or affirmation of another agency's determination. Instead, Ecology sends a letter of concurrence to the project and includes this letter in the project file. Ecology told EPA that they thought it should be sufficient as the public notice was done at the local level. While EPA certainly appreciates this position, we have little flexibility on this point at this time. See PER text.
	a. State environmental decision memo received public notification or an announcement was distributed to a list of interested parties and agencies, as specified in the SERP	X			
	b. The comment period was in accordance with state procedures				The draft EIS issued 9/28/09 for public comment through 11/3/09 (37 days), in accordance with the SEPA regulations. The final EIS was issued 11/30/09.
	c. The state addressed all comments.	X			The final EIS includes all responses to comments received on the draft EIS.
<b>1.5</b>	<b>Environmental Cross-Cutters</b> <i>[required for projects in an amount equal to the capitalization grant, including projects not subject to the SERP and projects receiving a categorical exclusion]:</i>				
1	For each of the laws listed below, does the project file contain either documentation of a State determination of "no potential effect", OR concurrence from the agency responsible for administering the law?				
	a. Endangered Species Act and Magnuson-Stevens Fishery Conservation and Management Act (essential fish habitat)	X			No adverse affects concurrence determination, NOAA/NMFS letter dated 10/30/2014.

Project File Review Checklist  
for the Clean Water State Revolving Funds (SRFs)

Required Program Elements - Pierce County, Chambers Creek (Loans #1400020)				
Review Item and Question to Answer	Yes	No	N/A	Comments
b. National Historic Preservation Act	X			No historic properties are affected, Cross Cutter Checklist, signed by Dave Dougherty, Ecology Regional Project Manger, 3/12/2014.
c. Wild and Scenic Rivers Act	X			Cross Cutter Checklist, signed by Dave Dougherty, Ecology Regional Project Manger, 3/12/2014.
d. Coastal Zone Management and Coastal Barriers Resources Act	X			Project has received a consistency determination on 2/10/14 from the SEA program, Cross Cutter Checklist, signed by Dave Dougherty, Ecology Regional Project Manger, 3/12/2014.
e. Farmland Protection Policy Act	X			Project does not convert farmland to nonfarm uses, Cross Cutter Checklist, signed by Dave Dougherty, Ecology Regional Project Manger, 3/12/2014.
f. Wetland Protection (Executive Order 11990)	X			Project is not located in, nor will it affect a wetland, Cross Cutter Checklist, signed by Dave Dougherty, Ecology Regional Project Manger, 3/12/2014.
g. Flood Plain Management (Executive Order 11988)	X			Project is located outside of the 100 year floodplain, Cross Cutter Checklist, signed by Dave Dougherty, Ecology Regional Project Manger, 3/12/2014.
h. Clean Air Act	X			Project expected to have an insignificant impact on air quality, Chambers Creek Regional Wastewater Treatment Plant Facilities Plan Final EIS, November 2009
i. Sole-source Aquifers (Safe Drinking Water Act)	X			No effect. current system does not discharge to groundwater and neither does the phase I improvements, as designed. Benefit to the SSA cited resulting from this project as some of it involves increasing capacity to enable failing onsite septic to be decommissioned, thereby reducing risk of ground water contamination, cover letter and supporting documents from consultant ESA to Pierce County, January 28, 2014.

Project File Review Checklist  
for the Clean Water State Revolving Funds (SRFs)

Technical Elements - Pierce County, Chambers Creek (Loans #1400020)				
Review Item and Question to Answer	Yes	No	N/A	Comments
<b>2.1 Bid, Procurement, and Construction Contracts</b>				
1 File contains request for proposals or bid announcement				Project file contains Request for Qualifications and Project Approach, RFQPA No. 625: General Contractor/Construction Management (GC/CM) Services for the Chambers Creek Regional Wastewater Treatment Plant Expansion, issued May 18, 2011. The GC/CM then developed bid packages for the construction work, some of which they selected to do themselves. According to invoices from the respective newspapers: <b>Bid Announcement #1</b> sub-contract bid packages #302, #306, #307, #308, #319, #320 were advertised in The Herald (Puyallup) on 8/7/2013 & opened 9/10/13 (36 days); <b>Bid Announcement #2</b> sub-contract bid packages #301, #309 (part I), #310, and #313 were advertised in The Herald (Puyallup) on 11/20/2013 & opened 12/12/13 (23 days); <b>Bid Announcement #3</b> sub-contract bid packages #309 (Part II), #311, #312, #314, and #315 were advertised in The Olympian on 1/15/14 & opened on 1/30/14 (16 days) ; <b>Bid Announcement #4</b> sub-contract bid packages #305, #316, #317, #318 were advertised in The News Tribune (Tacoma, WA) on bid 3/12/14 & opened on 3/27/14 (16 days). All of sub-contractor bid packages met Washington State's 14 day minimum bid notice requirement
2 File contains evidence that request for proposals or bid announcement was advertised according to state rules	X			Pierce County used the General Contractor/Construction Manager (GCCM) contracting option, as allowed by Revised Code of Washington (RCW 39.10.360). Washington State GCCM selection involves a three step procurement process 1) Request for Qualifications and Project Approach (in this case, RFQPA No. 625) 2) selection of a short list of finalists who are interviewed and 3) Request for Final Proposals (RFFPs), which go to short-listed finalist whose sealed bids are then publically opened at the due date. Timeline was: RFQPA issued from 5/18/11 through 6/16/11 (30 days), shortlist of finalists picked and interviewed between 7/15/11 and 7/29/11, RFFP issued 7/29/11 and final proposals opened on 8/22/11 (25 days), meeting Washington State's 14 day minimum bid notice requirement.
3 File contains a copy of specifications or construction contracts OR documentation that these items were reviewed by the State	X			Ecology approved the preliminary engineering report for this Phase I upgrade, approval letter July 25, 2012, signed by Ecology SWRO Water Quality Manger. Pierce County was delegated to manage the review and approval of subsequent Plans and Specifications, in accordance with an MOU between the County and Ecology. (see programmatic Tab, Section 1.1.3 for more detail). The project file contains the required quarterly report from Pierce County outlining the exercise of this approval delegation. These reports are reviewed by the Ecology project manager. GC/CM Contract No. 90190 signed 1/29/13.
4 File contains documentation that specifications or construction contracts contain the following required socio-economic cross-cutter language and forms <i>[required for projects in an amount equal to the Federal capitalization grant ]</i> :	X			
a. Disadvantaged Business Enterprise (DBE) good faith efforts	X			Pierce County General Contractor/Construction Manager (GCCM) RFQPA No. 625, 5/18, 2011, p.22.

Project File Review Checklist  
for the Clean Water State Revolving Funds (SRFs)

Technical Elements - Pierce County, Chambers Creek (Loans #1400020)				
Review Item and Question to Answer	Yes	No	N/A	Comments
b. DBE forms 6100-2, 6100-3 and 6100-4	X			GCCM used lowest, responsive, responsible bidding procedures for the use of its subcontractors, unless it did the work itself. With SRF, Ecology funded construction package #3 (CP3) through SRF Loan L1400020. Project file documents bidders list, good faith efforts, and prime filled out the 6100-4 form, which indicates that one of the responsive sub-contractors was a certified DBEs: Queen City sheet metal, which was awarded \$534,900. SRF Specification Insert, Attachment 5 & Attachment 6
c. Equal Employment Opportunity requirements (Executive Order 11246)	X			Pierce County General Contractor/Construction Manager (GCCM) RFQPA No. 625, 5/18, 2011, p.22.
d. Suspension and Debarment prohibitions (Executive Order 12549)	X			Pierce County General Contractor/Construction Manager (GCCM) RFQPA No. 625, 5/18, 2011, p.6. Project file includes SAM debarred & suspended searches for prime and subs and neither of them were debarred or suspended, according to the SAM searches.
5 File includes documentation that specifications or construction contracts contain the applicable EPA Davis-Bacon grant term and condition <i>[For CWSRF projects, Davis-Bacon requirements only apply to treatment works projects and publicly-owned decentralized treatment projects regulated by a NPDES permit.]</i>	X			Davis-Bacon terms and conditions change ordered into all construction contract bidding packages in construction package 3 (CP3), 11/14/14, Change Order No. 327, Pp.2-3 & Attachment 1.
a. File includes documentation that specifications or construction contracts contain the applicable Davis-Bacon wage determination(s)	X			Ecology indicated that the same wage determination was used for all bid packages. A spot-check review of bid package #1 confirmed that the correct wage determinations WA130001 (highway) and WA1300038 (building) were used, providing reasonable assurance the project is in compliance with D-B wage determination requirements.
b. For assistance recipients that are non-governmental entities: File includes documentation that state obtained and reviewed wage determinations prior to bid			X	Pierce County is a governmental organization.
<b>2.2 Reporting and Ongoing Compliance</b>				
1 File includes information to support project data entered into the CWSRF Benefits Reporting (CBR) database	X			Information found during this file review matches CBR data checked on 6/12/15.
2 Project file includes semi-annual DBE reports on subcontracting procurement (DBE form 5700-52A or equivalent) <i>[required for projects in an amount equal to the Federal capitalization grant]</i>	X			Pierce County sent required annual DBE reports to Ecology. Ecology aggregates all DBE reports into the 5700-52A for their annual report to Greg Luchey, EPA Region 10 DBE coordinator.
3 Project file includes documentation from the assistance recipient indicating compliance with Davis-Bacon for each weekly payroll	X			Project file includes certified weekly payroll for the week ending 5/30/2015.

Project File Review Checklist  
for the Clean Water State Revolving Funds (SRFs)

Technical Elements - Pierce County, Chambers Creek (Loans #1400020)				
Review Item and Question to Answer	Yes	No	N/A	Comments
<b>2.3 State Inspections</b>				
1 Project file includes copies of inspection reports prepared by the state or its representative	X			The Projects funded by loan L1400020 are included in Construction Package 3 and are in Areas 1, 5, 6, 8, 9, 18, 19, 20, 21, 22, 23A, and 30, which are all being completed as planned, according to the inspection report by Dave Dougherty on 3/27/2015.
2 Inspections were performed at intervals in accordance with the state's procedures (e.g., monthly during construction, quarterly, etc.)	X			Inspections are being performed at intervals in accordance with Ecology Project Management WQP Policy 2-07, which leaves it to the project managers' and engineers' discretion.
3 Inspection reports indicate project is in compliance with:				
a. Davis-Bacon requirements				Ecology is not required to check Davis Bacon during inspections. D-B is not mentioned in the inspection report by Ecology Project Manager, on 3/27/2015. Project manager indicated that he looked to see that the wages are posted on the job site, but did not look at payroll. Instead of using Ecology's monthly progress report forms, Pierce County uses their own printouts, which do not include a section for Davis Bacon payroll certification.
b. Green Project reserve eligibility (when applicable)			X	The inspection report does not mention Green Project Reserve eligibility
4 All issues and concerns identified in inspection reports were adequately resolved			X	No issues or concerns identified, inspection report by Dave Dougherty on 3/27/2015

## APPENDIX C

### Project File Review Checklist for the Clean Water State Revolving Funds (SRFs)

Required Financial Elements - Pierce County, Chambers Creek (Loans #1400020)				
Review Item and Question to Answer	Yes	No	N/A	Comments
<b>3.1 Financial Review</b>				
1 File includes documentation that the applicant underwent a financial capability review [may be N/A for projects receiving 100% principal forgiveness or grant]	X			File contains financial capability checklist completed by Ecology SRF planner and dated 1/15/14. It indicates that the utility taking out the loan is in very good financial condition and is capable of paying back the loan.
<b>3.2 Loan or Bond Purchase Agreement</b>				
1 The loan agreement or bond purchase document:				
a. Is signed by the state and assistance recipient (record date in comments)	X			Pierce County Loan L1400020 (\$60,000,000) - Binding Commitment letter signed on 6/30/14 and loan signed on 7/25/14 by Pat McCarthy, Pierce County Executive and signed on 07/29/2014 by Donald A Seeberger for Heather R. Bartlett, Water Quality Program Manager.
b. Includes a budget and/or description of eligible costs	X			Pierce County Loan L1400020, Part III, Pg. 7, includes a budget.
c. Includes the interest rate	X			Pierce County Loan L1400020 effective interest rate: 2.3% per annum, Pg. 3.
d. Includes the fee rate (if applicable)			X	Pierce County Loan L1400020 was signed before the new administrative charge became effective. When L1400020 is complete, Ecology will issue an addendum that splits the existing percentage (in this case 2.3 percent) between a 1.0 percentage administrative charge and the remaining interest (in this case 1.3 percent). The sub-recipient, however, will still pay the same 2.3% identified in the original (or latest amended) loan agreement .
e. Includes an amortization schedule or includes the repayment period and the date when repayments must begin <i>[N/A for projects receiving 100% grant or principal forgiveness]</i>	X			Pierce County Loan L1400020, Attachment 8, Schedule Number 1976
f. Includes requirement for the assistance recipient to submit Single Audit Reports <i>[N/A for non-governmental assistance recipients][only required for projects in an amount equal to the grant]</i>	X			Pierce County Loan L1400020, Attachment 6, Section H(4), p.2.
g. Requires the assistance recipient to maintain accounting practices in accordance with Generally Accepted Accounting Principals	X			Pierce County Loan L1400020, Attachment 4, p.1.
2 The interest rate is in accordance with the state's policies and procedures	X			Washington Administrative Code - WAC 173-98-400
3 The repayment period is in accordance with the state's policies and procedures:				
a. For loan agreements, repayment period does not exceed 20 years	X			Pierce County Loan L1400020 lists the loan term as 20 years, Part III, Pg. 3 and Attachment 8, Schedule Number 1976
b. For bond purchase documents, repayment periods exceeding 20 years are in accordance with a state extended term financing program approved by EPA			X	(see previous comment).
4 The loan or bond purchase document makes reference to Davis-Bacon requirements	X			Pierce County Loan L1400020, Attachment 4, p.14.
<b>3.3 Single Audit Act compliance</b>				
1 The assistance recipient is submitting Single Audit Reports <i>[N/A for a fiscal year if assistance recipient has not expended more than \$500,000 in Federal funds from all sources in the fiscal year, or is a non-equivalency project]</i>			X	Ecology disbursed \$0 federal funds to the Pierce County in FFY2013/SFY2014. Other federal funds could trigger a calendar year 2014 SAA report, but it is not expected until September 2015. The last Pierce County SAA report was submitted for calendar year 2013 and had no findings.
a. The state ensured that the assistance recipient addressed findings and resolved any issues identified in a Single Audit Report			X	see previous comment



Project File Review Checklist  
for the Clean Water State Revolving Funds (SRFs)

State: Washington

Reviewer: David Carcia

Project or Borrower: City of Granger - (Loan# L1300029)

Date: 5/12/15

**Required Program Elements - City of Granger (Loan# L1300029)**

Review Item and Question to Answer	Yes	No	N/A	Comments
<b>1.1 Funding Eligibility</b>				
1 File contains an application submitted by the recipient	X			Application FP13020 for loan L1300029 was signed 11/03/11 by Ramona Fonseca, City of Granger Mayor.
2 The assistance recipient and project is eligible for CWSRF assistance	X			File indicates this project upgrades and expands an existing, publicly-owned wastewater treatment works facility, which are eligible under Section 212 of the Clean Water Act.
3 All technical documents required by the state for the type of project have been submitted (preliminary engineering reports, plans & specs, etc.) and reviewed	X			Plans reviewed and conditionally approved for this project, pending JARA Permit approval, Letter to Granger 5/29/14 signed by Section Manager, Water Quality Section. Condition was met when JARA Permit approved 7/17/14, USACE letter signed by Peter D. Olmstead, Project Manager, Regulatory Branch. Hydraulic Project Approval (HPA), Washington Dept. of Fish and Wildlife, 6/05/14.
<b>1.2 Green Project Reserve (GPR)</b>				
1 Project file indicates that any portion of the project designated to receive GPR funding is either:				
a. Categorically qualified for the GPR			X	This is not a GPR project.
b. Supported as GPR eligible by a State-approved business case			X	This is not a GPR project.
2 Business case has been posted on State website by the end of the quarter in which the project was funded			X	This is not a GPR project.
<b>1.3 Socio-Economic and Other Cross-Cutters</b>				
1 Project file contains documentation that the assistance recipient agrees to comply with the following <i>[required for projects in an amount equal to the capitalization grant]</i> :				
a. Equal Employment Opportunity requirements (Executive Order 11246)	X			SRF bid insert Section 00441, Attachment 3, signed by Amy Jenne, City of Granger, 6/30/14.
b. Suspension and Debarment prohibitions (Executive Order 12549)	X			Condition of the loan agreement (L1300029), Attachment 4, p.18.
c. Disadvantaged Business Enterprise requirements	X			Condition of the loan agreement (L1300029), Attachment 4, p.21.
<b>1.4 State Environmental Review</b>				
1 Project File includes the following, as appropriate <i>[Note: may be included in the Preliminary Engineering Report or Facilities Plan]</i> :				
a. Discussion of required mitigation measures	X			Granger NEPA, 12/16/2014, Pp.7-8.
b. Analysis of other sites and/or other projects considered			X	Project within the footprint of the existing WWTF property or replacing existing sewer pipes in the public right of way within the roadways of Granger.
2 The project is subject to the State Environmental Review Process (SERP) <i>[N/A for nonpoint source projects]</i> :	X			Project meets the definition of treatments works under Section 212 of the Clean Water Act, requiring it to under go Ecology's SERP.
a. For projects subject to the SERP, file includes an Environmental Information Document (EID) from the assistance recipient <i>[N/A for projects receiving a Categorical Exclusion]</i> :	X			See Comment (1.4.3(b) below)

Project File Review Checklist  
for the Clean Water State Revolving Funds (SRFs)

**Required Program Elements - City of Granger (Loan# L1300029)**

Review Item and Question to Answer		Yes	No	N/A	Comments
3	File contains the state's decision memo (with environmental assessment, as applicable) documenting <b>one</b> of the following:				
	a. Decision to classify the project as a Categorical Exclusion (CE or CatEx)			X	See Comment (1.4.3(b) below)
	b. Decision to grant a Finding of No Significant Impact (FNSI or FONSI)				Granger issued a FONSI determination, signed by Spink Engineering, LLC and Granger Mayor Gary Anderson, 12/16/2014, 12/21/14, and Ecology adopted that determination 4/8/15.
	c. Decision to require an Environmental Impact Statement (EIS)	X			
				X	See Comment (1.4.3(b) above)
4	File includes Environmental Impact Statement and accompanying Record of Decision [N/A for projects receiving a Categorical Exclusion or Finding of No Significant Impact]				
				X	See Comment (1.4.3(b) above)
5	File includes evidence of public notification, as required:				
	a. State environmental decision memo received public notification or an announcement was distributed to a list of interested parties and agencies, as specified in the SERP				Ecology reviewed the NEPA documentation, filled out the ER adoption Checklists signed by Ian 3/27 2015 and adopted Grangers FONSI on 4/8/2015. Ecology memo to file issued 4/22/15 explains that funds were disbursed because they knew the NEPA work was done, but ECY had not formally adopted it. Ecology corrected this technical issue a filling out the adoption checklist and issuing their FONSI adoption decision memo on 4/8/2015. No further action required.
		X			
	b. The comment period was in accordance with state procedures			X	See Comment (1.4.3(b) above)
	c. The state addressed all comments.			X	See Comment (1.4.3(b) above)
<b>1.5 Environmental Cross-Cutters</b> [required for projects in an amount equal to the capitalization grant, including projects not subject to the SERP and projects receiving a categorical exclusion]:					
1	For each of the laws listed below, does the project file contain either documentation of a State determination of "no potential effect", OR concurrence from the agency responsible for administering the law?				
	a. Endangered Species Act and Magnuson-Stevens Fishery Conservation and Management Act (essential fish habitat)	X			No adverse affect, Granger NEPA, Attachment 8, 12/16/2014, and NOAA/NMFS ESA/EFH letter, signed 9/8/2011 by staff for William Steele, Regional Administrator.
	b. National Historic Preservation Act	X			No effect. Granger NEPA, Attachment 5, 12/16/2014 and Washington SHPO letter 8/23/2011.
	c. Wild and Scenic Rivers Act	X			No effect. Project not on a designated wild and scenic rivers segment, Granger NEPA, Attachment 9, 12/16/2014.
	d. Coastal Zone Management and Coastal Barriers Resources Act	X			No effect. Project is not in a coastal management zone, Granger NEPA, 12/16/2014, Page3.
	e. Farmland Protection Policy Act	X			No effect. No farmland in project area, Granger NEPA, 12/16/2014, Page7.
	f. Wetland Protection (Executive Order 11990)	X			No effect. No wetlands in project area, Granger NEPA, 12/16/2014, Attachment 5.
	g. Flood Plain Management (Executive Order 11988)	X			FONSI. Project located in a "special flood hazard area" (SFHA), which is delineated as a 1% chance of annual flooding, which is being mitigated by the project's participation in the National Flood Insurance Program, in accordance with 24 CFR 58.6, Granger NEPA, 12/16/2014, Attachment 6 & p.7.

Project File Review Checklist  
for the Clean Water State Revolving Funds (SRFs)

**Required Program Elements - City of Granger (Loan# L1300029)**

Review Item and Question to Answer	Yes	No	N/A	Comments
h. Clean Air Act	X			FONSI. Project located in an air quality attainment area and construction impacts are short-term and insignificant, Granger NEPA, 12/16/2014, Attachment 22 & p.4.
i. Sole-source Aquifers (Safe Drinking Water Act)	X			FONSI. Project is located within the critical aquifer recharge area and its planned sewer line repairs protect against infiltrations of sewage into the ground, thereby provide a beneficial impact. Granger NEPA, 12/16/2014, Attachment 4 & Attachment 20.

Project File Review Checklist  
for the Clean Water State Revolving Funds (SRFs)

Required Technical Elements - City of Granger (Loan# L1300029)					
Review Item and Question to Answer		Yes	No	N/A	Comments
<b>2.1 Bid, Procurement, and Construction Contracts</b>					
1	File contains request for proposals or bid announcement	X			File contains Affidavit bid was published on 6/2/14 and 6/9/14 in the Daily Sun News
2	File contains evidence that request for proposals or bid announcement was advertised according to state rules	X			Granger bids opened 7/1/14 (30 days), which exceeds the minimum 14 days required.
3	File contains a copy of specifications or construction contracts OR documentation that these items were reviewed by the State	X			File contains a the Bid/Contract Documents (including SRF bid insert) that were released for Ecology review, dated 5/1/14. Notice of award of construction contract to Apollo, Inc. 7/9/14
4	File contains documentation that specifications or construction contracts contain the following required socio-economic cross-cutter language and forms [required for projects in an amount equal to the Federal capitalization grant ]:				
	a. Disadvantaged Business Enterprise (DBE) good faith efforts	X			Bidding and Contract Documents, Section 00220, SRF Specification Insert, Pp. 25-27.
	b. DBE forms 6100-2, 6100-3 and 6100-4	X			Bidding and Contract Documents, Section 00220, SRF Specification Insert, Pp. 3-5.
	c. Equal Employment Opportunity requirements (Executive Order 11246)	X			Bidding and Contract Documents, Section 00220, SRF Specification Insert, Pp. 5-11.
	d. Suspension and Debarment prohibitions (Executive Order 12549)	X			Bidding and Contract Documents, Section 00220, SRF Specification Insert, Pp. 2-3.
5	File includes documentation that specifications or construction contracts contain the applicable EPA Davis-Bacon grant term and condition [For CWSRF projects, Davis-Bacon requirements only apply to treatment works projects and publicly-owned decentralized treatment projects regulated by a NPDES permit.]	X			Bidding and Contract Documents, Section 00220, SRF Specification Insert, Attachment 1, Pp. 12-20.
	a. File includes documentation that specifications or construction contracts contain the applicable Davis-Bacon wage determination(s)	X			Addendum #2 to the Bidding and Contract Documents, Section 00220, dated 6/26/15, contains federal wage determination WA20130104 Mod 0.
	b. For assistance recipients that are non-governmental entities: File includes documentation that state obtained and reviewed wage determinations prior to bid advertisements to ensure compliance with Davis-Bacon requirements		X		The City of Granger is a governmental entity.
<b>2.2 Reporting and Ongoing Compliance</b>					
1	File includes information to support project data entered into the CWSRF Benefits Reporting (CBR) database	X			Information found during this file review matches CBR data checked on 6/12/15.
2	Project file includes semi-annual DBE reports on subcontracting procurement (DBE form 5700-52A or equivalent) [required for projects in an amount equal to the Federal capitalization grant]	X			With each disbursement request, Granger reports DBE through the use of the Form D. Ecology aggregates these for the required annual DBE report to Greg Luchey, the EPA Region 10 DBE coordinator.
3	Project file includes documentation from the assistance recipient indicating compliance with Davis-Bacon for each weekly payroll	X			The City of Granger's progress reports include a certification statement regarding Davis-Bacon compliance, including weekly payrolls.
<b>2.3 State Inspections</b>					
1	Project file includes copies of inspection reports prepared by the state or its representative	X			Inspection on 3/25/15 by Ecology reviewer, Ian Laseke, P.E
2	Inspections were performed at intervals in accordance with the state's procedures (e.g., monthly during construction, quarterly, etc.)	X			Inspections are being performed at intervals in accordance with Ecology Project Management WQP Policy 2-07, which essentially leaves it up to Ecology project managers to decide inspection frequency decision. The scope and complexity of a particular project are prime drivers that go into inspection frequency decisions.
3	Inspection reports indicate project is in compliance with:				
	a. Davis-Bacon requirements	X			Inspection on 3/25/15 by Ecology reviewer, Ian Laseke, P.E., indicates project payroll records include certification of Davis-Bacon compliance, including weekly payrolls, posting of D-B wages on the project site and accessible by workers, and documentation of D-B interviews to verify wages paid.
	e. Green Project reserve eligibility (when applicable)		X		Not a GPR project
4	All issues and concerns identified in inspection reports were adequately resolved			X	No issues or concerns identified.

Project File Review Checklist  
for the Clean Water State Revolving Funds (SRFs)

Required Financial Elements - City of Granger (Loan# L1300029)				
Review Item and Question to Answer	Yes	No	N/A	Comments
<b>3.1 Financial Review</b>				
1 File includes documentation that the applicant underwent a financial capability review [may be N/A for projects receiving 100% principal forgiveness or grant]	X			File contains financial capability assessment (FCA) checklist completed by Ecology SRF planner and dated 1/17/13. Ecology recommended increased oversight, a loan agreement condition that specifies a requirement for a written commitment of a revenue source to repay the SRF loan and to fund Operations, Maintenance, and Repair of the wastewater system unless the applicant provides such documentation prior to execution of the agreement. In Attachment 1(F) to the loan agreement, the applicant stated that the loan agreement constitutes a valid obligation payable from the "Net Revenues of the Utility". Ecology considers this statement was deemed sufficient to satisfy the recommendation in the FCA.
<b>3.2 Loan or Bond Purchase Agreement</b>				
1 The loan agreement or bond purchase document:				
a. Is signed by the state and assistance recipient (record date in comments)	X			Loan (L1200016) \$1,860,835 signed 6/25/13 by Lilia O. Villarreal, Granger Mayor Pro Tem and 6/28/13 by Kelly Susewind, Water Quality Program Manager, Ecology. Amendment No. 1 signed 3/20/15 by Jodi Luke, Public Works Director and 3/30/15 by Heather Bartlett: increased loan to a total of \$1,983,122 and updated repayment schedule accordingly.
b. Includes a budget and/or description of eligible costs	X			Loan L1300029, Project Budget, Part III p.6. Amendment No. 1: Budget updated to account for the increased loan amount of \$1,983,122.
c. Includes the interest rate	X			Loan (L1300029) includes an interest rate of 2.3 percent per annum, Part I General Information, P.3.
d. Includes the fee rate (if applicable)	X			Ecology signed loan (L130029 ) before the new administrative charge became effective. Within six months of the last loan disbursement, Ecology will issue an addendum that splits the existing percentage rate to a 1.0 % administrative charge and 2.3% interest rate. The sub-recipient will still pay the same 2.3% effective rate.
e. Includes an amortization schedule or includes the repayment period and the date when repayments must begin [N/A for projects receiving 100% grant or principal forgiveness]	X			Amendment No. 1 updates loan to replace the former repayment schedule with schedule number 2117.
f. Includes requirement for the assistance recipient to submit Single Audit Reports [N/A for non-governmental assistance recipients][only required for projects in an amount equal to the grant]	X			Loan (L1300029), includes a requirement that the sub recipient comply with OMB Circular A-133, p.4.
g. Requires the assistance recipient to maintain accounting practices in accordance with Generally Accepted Accounting Principals	X			Ecology requires sub recipients to follow Revised Code Of Washington (Chapter 43.09.200 RCW) "Local Government Accounting - Uniform System of Accounting," City of Granger Loan (#L130029), Attachment 4: General Project Management, P.18.
2 The interest rate is in accordance with the state's policies and procedures	X			Washington Administrative Code - WAC 173-98-400
3 The repayment period is in accordance with the state's policies and procedures:				
a. For loan agreements, repayment period does not exceed 20 years	X			Loan (L1300029) includes term of 20 years, Part I General Information, P.3.
b. For bond purchase documents, repayment periods exceeding 20 years are in accordance with a state extended term financing program approved by EPA			X	

Project File Review Checklist  
for the Clean Water State Revolving Funds (SRFs)

Required Financial Elements - City of Granger (Loan# L1300029)				
Review Item and Question to Answer	Yes	No	N/A	Comments
4 The loan or bond purchase document makes reference to Davis-Bacon requirements	X			City of Granger Loan (#L130029), Attachment 4: General Project Management, P.29.
<b>3.3 Single Audit Act compliance</b>				
1 The assistance recipient is submitting Single Audit Reports <i>[N/A for a fiscal year if assistance recipient has not expended more than \$500,000 in Federal funds from all sources in the fiscal year, or is a non-equivalency project]</i>			X	Ecology disbursed \$0 federal funds to the City of Granger in FFY2013/SFY2014. Granger is on a calendar year schedule (January through December). Last single audit report: submitted for calendar year 2013 had no findings. The 2014 audit is expected in September 2015.
a. The state ensured that the assistance recipient addressed findings and resolved any issues identified in a Single Audit Report			X	Ecology had not yet disbursed any funds to the City of Granger